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1990 Farm Bill

Proposal of the Administration

February 1990



**United States
Department of
Agriculture**



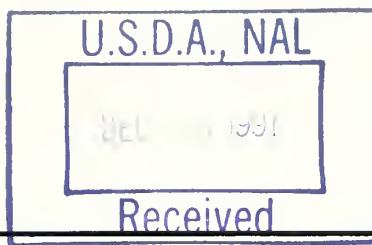
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Foreword



A dynamic, rapidly changing decade lies before us; therefore, it is imperative that we in the Bush Administration join with the agricultural leadership of the Congress to develop a farm bill that is responsive to the agricultural needs of the 1990s. The first farm bill of this decade must provide the flexibility to adjust to change in the international marketplace, maintain the successful course set in the 1985 legislation, and balance the need for an abundant, safe and affordable food supply with conservation and improvement of our environment.

In developing the Administration's recommendations for the 1990 Farm Bill, present and future needs of the American farmer were our paramount concern. We had innumerable consultations with general farm organizations, commodity groups, consumer groups, agribusiness and industry representatives, and the academic community. Our preparations have included dialogue with Members of Congress and other Departments and Agencies of the Federal Government, plus indepth discussions with our own specialists and managers in the Department of Agriculture.

The resultant set of proposals is wide-ranging. It covers the vast array of issues vital to America's farmers—price and income supports, conservation and environment, international programs, crop disaster assistance, food and consumer services, farm credit, science and education, marketing and inspection services, and a host of miscellaneous provisions as well.

These recommendations are separate from, though integrally related to, our activities in the multilateral trade negotiations. We have high goals for those negotiations, for through them we seek to make world agricultural markets fair and open so our farmers can compete with the farmers of other nations instead of with the treasuries of foreign governments. When the Uruguay Round is complete, we will submit to the Congress whatever implementing language may be necessary.

A great deal of work and thought has gone into these proposals. We hope they will carefully and promptly be considered by the Congress. Nearly every proposal builds on the foundation established by the 1985 Farm Bill, a testimony to the wisdom of that Congressional action. Because that foundation is firmly established, we believe it is both feasible and desirable to have this new legislation signed into law before the fall planting season begins.

 
Clayton Yeutter
Secretary of Agriculture

1990 Farm Bill Proposal

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I. Price and Income Supports

I. Price and Income Supports in Brief

The 1990 Farm Bill will reauthorize the price and income support programs for the major commodities that are already covered by legislation. The Administration proposes to increase flexibility in farmer decisionmaking. Under current law, program requirements tie the farmer's program benefits directly to historical planting. These requirements should be relaxed so that the maintenance of planting history does not drive current-year decisions farmers make concerning production.

The current system of target prices, crop acreage bases, and acreage reduction programs is aimed at supporting farm income through direct payments and artificially tightened supplies. This idling of productive resources brings about inefficiencies. To the extent that farmers are freed from the need to plant certain specific crops in order to maintain their eligibility for program benefits, overall economic efficiency should improve. Farmers will begin to produce at lower cost and will become more competitive in world trade. They will be able to respond more rapidly to market signals and make more productive use of their resources.

Loan rates for cotton and rice should be made more reflective of actual market conditions and should be brought into line with loan rates for grains. Along with this reform, the Farmer-Owned Reserve (FOR) Program should be changed so that it does not continue to attract and tie up commodities to the detriment of effective marketing strategies. The proposals will increase the competitiveness of U.S. farm products by facilitating their movement to market.

In the Food Security Act of 1985 and earlier laws, acreage reductions were tied to levels of stock accumulation without regard to levels of usage. The Administration proposes, instead, that levels of acreage reduction be triggered by stock levels as they relate to total utilization of a commodity.

The Administration supports a dairy price support program that responds more rapidly and precisely to changes in surplus stock levels as indicated by the volume of dairy products sold to the government. A more flexible process for adjusting dairy support levels is needed and is part of the Administration's proposal.

The Administration proposes to change the peanut program so that the support level is no longer a function of the cost of production.

Reliance on the cost of production is an out-moded means of setting farm price supports and is inconsistent with other price support programs.

The Administration also proposes to change the honey program so that prices will be more competitive with imported honey and the program operates more efficiently. Income support would be provided through direct payments as is the case with other commodities.

For wool and mohair, the current program based on parity prices should be reformed. Target prices at levels lower than the support rates under current law but consistent with other commodities are proposed by the Administration.

1. Planting Flexibility

Issue:

The current system of target prices, crop bases, and acreage reduction programs for program crops (wheat, feedgrains, cotton and rice) is designed to support farm income. While farm income has been supported, this system has also produced some undesirable trends. Soybean production has been indirectly limited by large land retirement programs for other crops, while the U.S. share of the world soybean market has fallen. Oat acreage has dropped, and the U.S. has become the world's largest oat importer. Wheat acreage has been limited despite very low supplies. Crop rotations and their associated environmental benefits have either been prevented or made unprofitable by the programs. And, there has been a continuing need for acreage reduction programs to constrain both budget exposure and the production incentives of target prices. More flexible commodity programs could reduce these detrimental effects, improve competitiveness, and increase farmer returns from the market.

Background:

Planting flexibility means changing farm programs to allow producers to plant crops in response to market prices, rather than in response to government-determined incentives or policies.

Current programs affect farm production through a mixture of market and government determined prices and individual crop acreage limitation programs. A producer of a program crop has an assigned "base" acreage of that crop, which is derived from a 5-year moving average of plantings of the crop on the farm. To be eligible for program benefits, the producer may be required to idle a portion of the crop base under a voluntary acreage reduction program. If the producer agrees to reduce acreage, the producer receives target price protection on the acreage that is permitted to be planted, and is eligible for nonrecourse price support loans on the farm's crop production.

These programs limit flexibility for three reasons:

- Economics - Target prices are set well above market prices and encourage high program participation. Once in the program, participating farmers must allocate land to program crops or conserving uses dictated by USDA and not to other crops.

- **Law** - Current law generally requires farmers to forego present and future program benefits if they harvest crops other than the program crop for which they have "base." This prevents the planting and harvest of other program crops and nonprogram crops, even if their market prices are more attractive.
- **Budget** - There is a need to operate acreage reduction programs and generally enforce limited cross compliance among all program crops to reduce outlays and restrict base building. This may limit production even when stocks are low and marketing opportunities are available.

Overcoming the barriers to flexibility would make government programs neutral with respect to farming decisions, thereby improving resource allocation and production efficiency. Artificial incentives to farm the same crop year after year would be lowered.

Reliance on acreage reduction programs to balance supply and demand could also be reduced. Acreage reduction programs idle productive resources, make land artificially scarce, reduce economic activity in input industries, and raise per unit production costs.

Many flexibility options share three characteristics: (1) a set of substitutable or interchangeable crops that could be planted on any program crop's base acres, (2) protection of the crop base acres if any of these substitutable crops are planted, and (3) fixing the payment acres for the crop at some set level, regardless of which and how much of the substitutable crops are planted on the crop base.

These three characteristics permit producers to plant a variety of crops on their permitted base acres and not lose deficiency payments or base history. The acreage choice is determined by relative market prices. If the producer chooses to plant crop B on crop A's base acres, the producer only gives up the market return of crop A, not A's deficiency payment.

While these characteristics define a flexible program for a limited set of crops on permitted crop base acres, they do not address the problem of base acres idled under acreage reduction programs or the planting of nonprogram crops. Even greater producer flexibility and overall economic gains could be obtained by

allowing producers to plant the program crop or nonprogram crops, under certain conditions, on acres set aside under acreage reduction programs. The 1990 wheat program is an example of using acreage diverted from production to meet U.S. and foreign demand.

Further, payment acres could be set below permitted acres to achieve both budget savings and greater market orientation. However, reduced payment acres are not assumed in this specific proposal.

Recommendation:

Greater production flexibility in price and income support programs should be achieved using the following approach: Implement a Normal Crop Acreage (NCA) concept to define substitutable crops and their permitted acres, authorize crop-specific acreage reduction programs, and provide authority to plant on idled acres in exchange for giving up specified deficiency payments (acre for acre, as in the 1990 wheat program).

Specific Recommendations:

1. Each farm is assigned a Normal Crop Acreage (NCA), which is the sum of the farm's acreage bases of program crops (wheat, feedgrains, upland and extra long staple cotton, and rice) plus historical plantings of oilseeds (soybeans, sunflowers, and rapeseed, including canola).
2. An annual determination is made whether to apply individual crop acreage reduction programs (ARPs), if necessary, to each crop's base acreage. Acreage to be idled by participants is expressed as a percentage of the individual crop base. Authority for paid diversions is continued. ARPs would not apply to oilseed base acres.
3. To qualify for program benefits for any target price crop, the producer must comply with the ARP requirement for that crop. In addition, to qualify for any program benefits at all, the sum of NCA-crop plantings plus acres idled under the acreage reduction programs (the Acreage Conservation Reserve or ACR acres) cannot exceed the farm's NCA.

4. Payment acres for each crop are equal to its historic crop base acres, less acres required to be idled under the ARP.
5. Any program crop and oilseeds may be planted and harvested on a crop's payment acres with no loss of deficiency payments or base history. Conserving crops may be planted but not harvested. The planting and harvesting of certain alternative nonprogram crops may be permitted, but the producer would forego deficiency payments on such acreage.
6. The program crop, conserving crops, experimental crops, and industrial crops (**but not other program crops or oilseeds**) may be planted and harvested on the acres idled under the crop ARP. For each acre of program crops planted and harvested on ACR, the producer would forego an acre of deficiency payments. For each acre of conserving, industrial, or experimental crops planted and harvested, the producer would forego a dollar value of deficiency payments determined by prorating across program crops.
7. If needed to provide adequate supplies, producers may be permitted to plant up to 105 percent of the crop base. If needed to reduce excessive supplies, wheat, feedgrains, upland and extra long staple cotton, or rice may be excluded from the NCA and NCA planting provisions and treated individually with a crop-specific acreage reduction program.
8. Bases would be a 5-year moving average of planted plus considered planted acres. A producer who is eligible for payments from one or more crops cannot build base of any NCA crop.
9. Program yields would be frozen at the 1990 level.

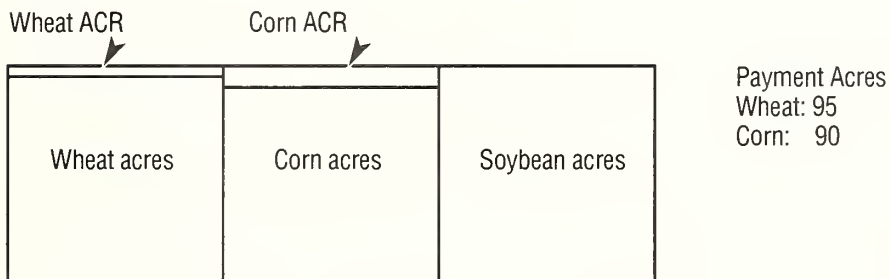
This flexibility program would make production decisions more responsive to market conditions, leading to higher production of crops in scarce supply and lower production of crops in surplus. There would likely be greater use of crop rotations with attendant environmental benefits. The cost to the nation's economy of vast idled acreages would be reduced. Farmers would have a greater ability to alter their crop choices and to increase their income from the market. Farm program outlays would be reduced.

Flexibility Example

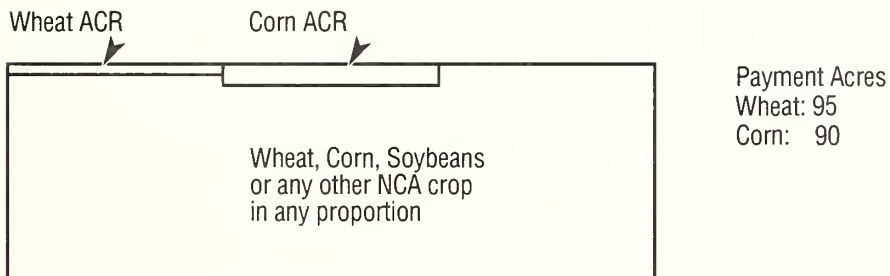
Sample Farm: 100 Acres Wheat Base
100 Acres Corn Base
100 Acres Soybeans

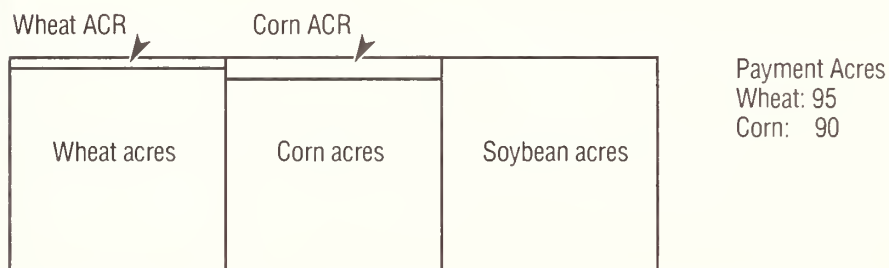
Program: 5% Wheat ARP
10% Corn ARP

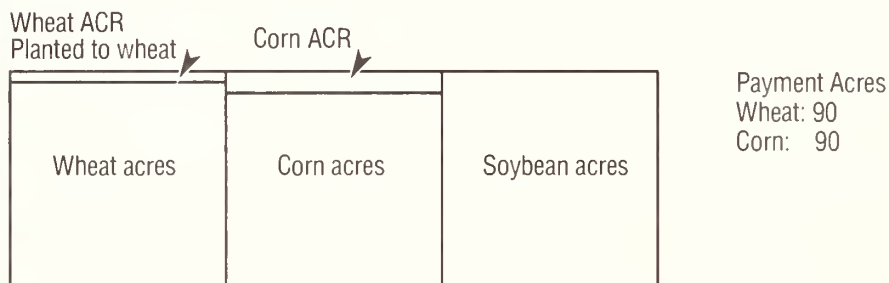
Current Law:

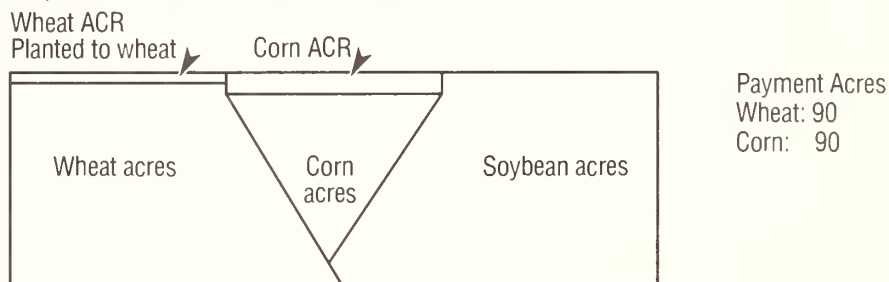


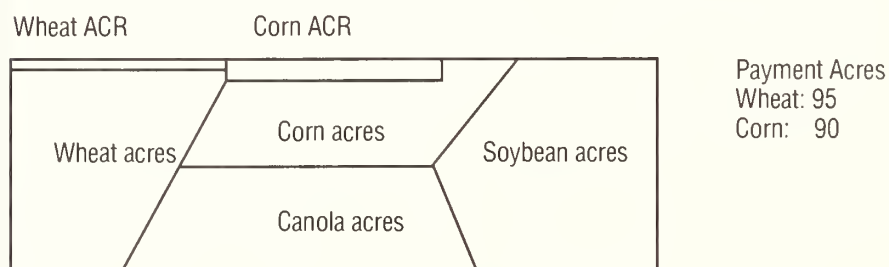
Flexibility: General Example, Full Participation

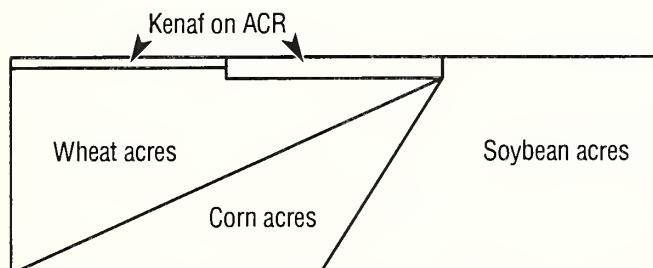


Flexibility: Example #1 – Producer Plants Same as Under Current Law

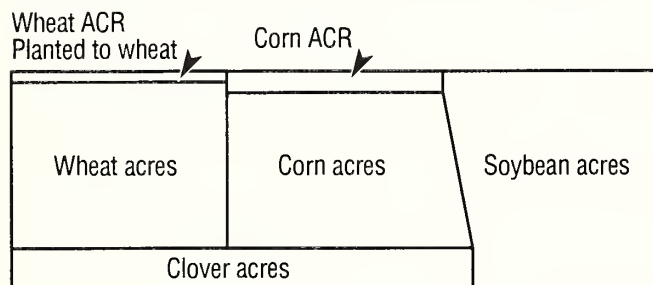
Flexibility: Example #2 – Producer Increases Wheat Planting on ACR

Flexibility: Example #3 – Producer Increases Plantings of Wheat and Soybeans. Wheat Planted on ACR.

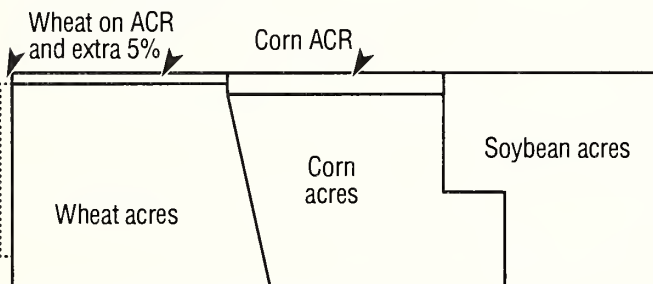
Flexibility: Example #4 – Producer Tries Canola

Flexibility: Example #5—Producer Experiments with Kenaf

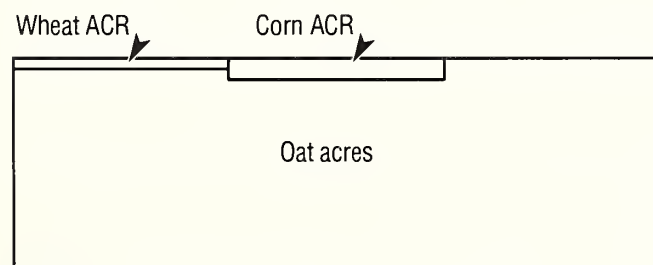
Payment Acres
Wheat: 90
Corn: 80

Flexibility: Example #6—Producer Improves Rotation

Payment Acres
Wheat: 90
Corn: 90

Flexibility: Example #7—Producer Allowed To Increase Plantings by 5% of Wheat Base

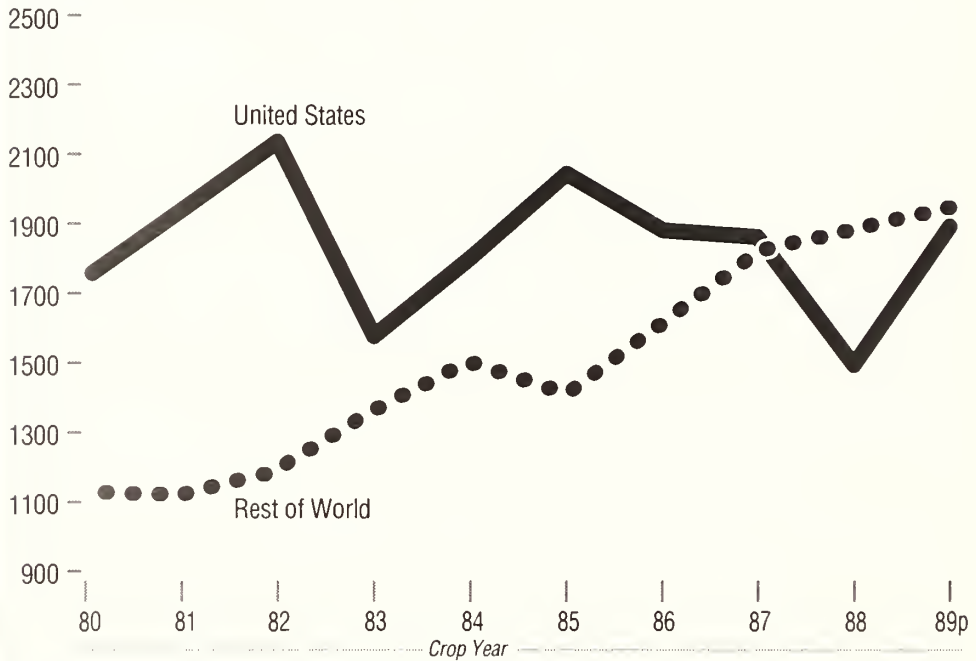
Payment Acres
Wheat: 85
Corn: 90

Flexibility: Example #8—Producer Plants Oats

Payment Acres
Wheat: 95
Corn: 90

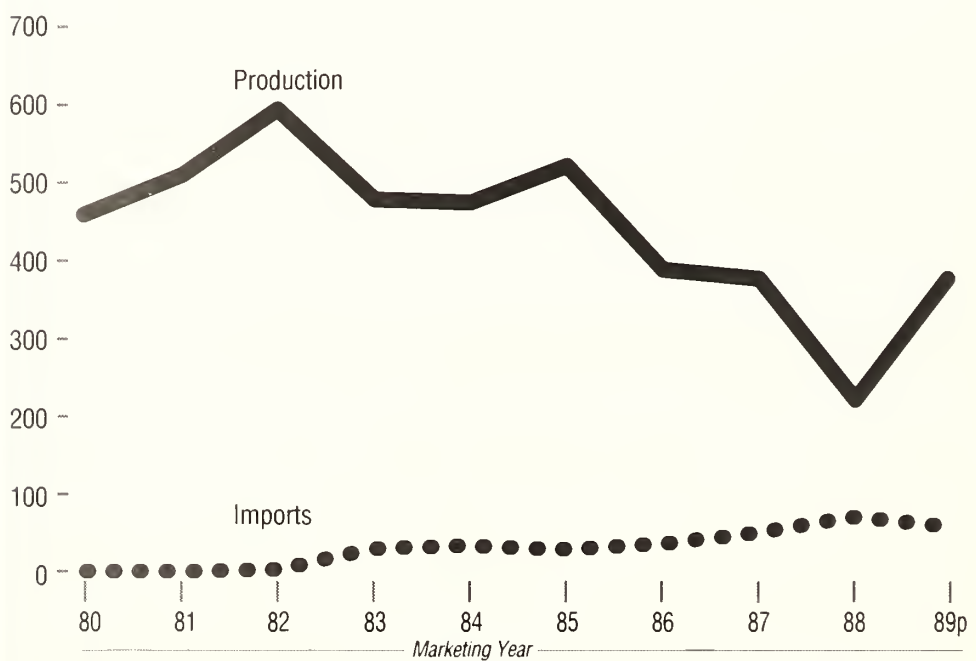
Soybean Production

Million Bushels



Oats: U.S. Production and Imports

Million Bushels



2. Loan Rates For Program Crops And Soybeans

Issue:

The Food Security Act of 1985 establishes different methods for determining price support loan and purchase rates among the program crops and soybeans. As a result, loan rates for some crops have affected prices and marketing and production incentives more than for other crops. The 1990 Farm Bill should establish loan rates in a consistent way across crops and with minimal influence on farmers' production and marketing decisions.

Background:

The 1985 Act sets loan rates for wheat, corn, upland cotton, extra long staple (ELS) cotton, rice, and soybeans by using formulas. The loan rates for barley, grain sorghum, and oats are set in relation to corn. Current provisions are:

Wheat and corn:

The formula sets the loan rate at 75-85 percent of the average price received by producers during the previous five years, excluding the high and low years. The loan rate may not be reduced by more than 5 percent in any year. The Secretary may reduce the loan rate as determined above by up to 20 percent if necessary to maintain export and domestic markets.

Soybeans:

The formula sets the loan rate at 75 percent of the average price received by producers during the previous five years, excluding the high and low years. The loan rate may not be reduced by more than 5 percent in any year. The Secretary may reduce the loan rate as determined above by up to 5 percent if necessary to maintain export and domestic markets, but in no event may the soybean loan rate be set below \$4.50 per bushel.

Upland cotton:

The formula sets the loan rate at the lesser of 1) 85 percent of the average of past U.S. spot market prices during the previous five

years, excluding the high and low years and 2) 90 percent of the average for the 15-week period beginning July 1 for the year in which the loan rate is announced of the five lowest-priced growths of the growths quoted for middling 1-3/32-inch cotton c.i.f. Northern Europe (adjusted for the average difference between Northern Europe and U.S. spot market quotations). The loan rate may not fall more than 5 percent in any year and may not be below \$0.50 per pound.

ELS cotton:

The formula sets the loan rate at 85 percent of the average price received by producers during the previous five years, excluding the high and low years.

Rice:

The formula sets the loan rate at 85 percent of the average prices received by producers during the previous five years, excluding the high and low years. The loan rate may not be reduced more than five percent in any year and may not be reduced below \$6.50 per hundredweight.

Under these formulas, wheat and feedgrains have had the largest percentage reductions in loan rates. Percentage changes in loan rates for 1990 crops compared with 1985 crops are: wheat, -41; corn, -38; upland cotton, -12; and rice, -19. The soybean loan rate drop was 10 percent (comparable to the drop in target prices for program crops). These reductions were not sufficient to assure global competitiveness. Other programs increased global competitiveness. The Export Enhancement Program assisted exports, commodity certificates aided marketings of all program crops, but particularly grains, and marketing loans improved the competitiveness of upland cotton and rice.

Statutory minimum loan rates, particularly for cotton and rice, have prevented, and may in the future prevent, the rates from fully reflecting underlying market conditions. For cotton and rice, which have target price protection, there are no economic reasons for preventing loan rates from adjusting to safety-net levels set below the trend in market prices, as is done for grains. The result of the current loan rate policy for cotton and rice has been heavy reliance on the loan program, which has eroded global competitiveness and increased administrative burdens. In 1988, over 90 percent of the rice crop and over 70 percent of the cotton crop were cycled

through the loan program in order to use the marketing loan. The effect of the statutory minimum cotton and rice loan rates is to reduce the level of deficiency payments subject to the \$50,000 payment limit.

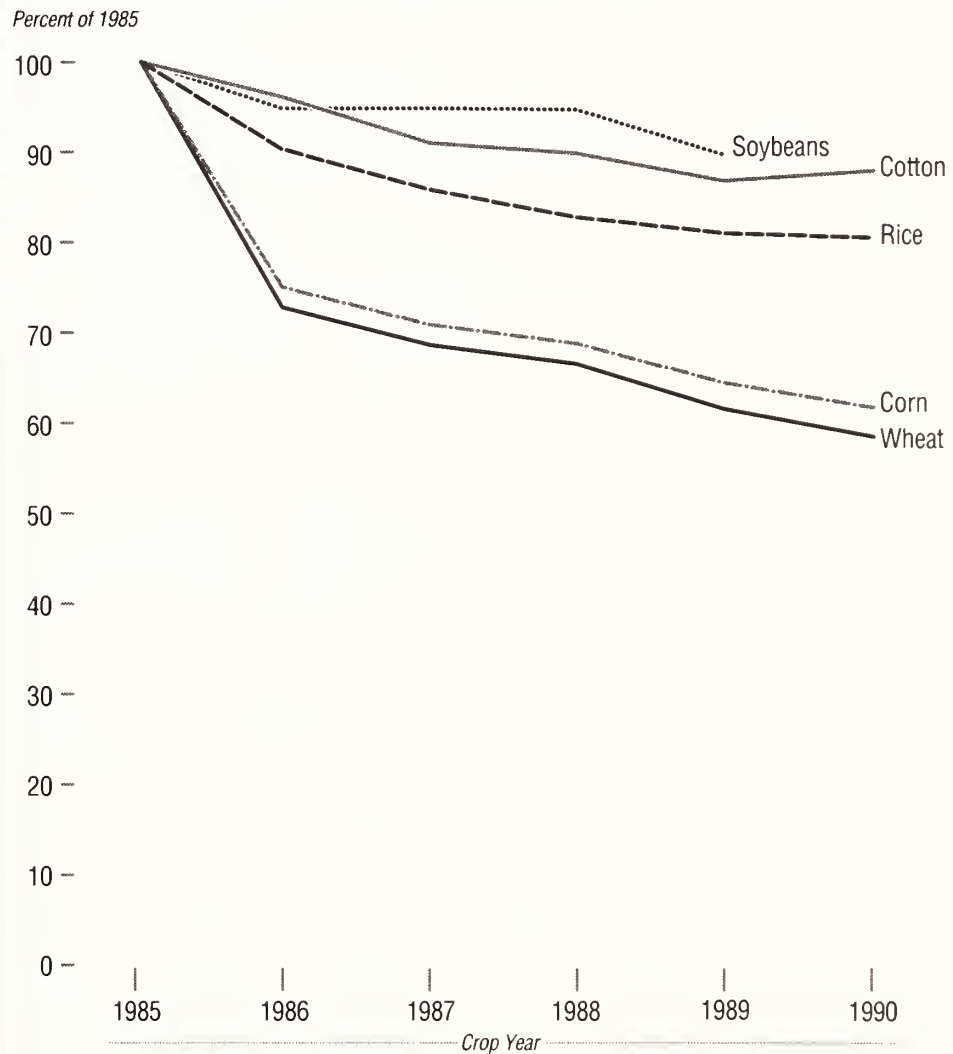
The widely different formulas for setting loan rates cause them to bear differing relationships to market prices among crops. Marketing decisions and, therefore, market prices are affected differently. The influence of loan rates on relative prices and relative returns also means farmers may base their production decisions on government administered loan rates rather than market determined prices. These problems would be exacerbated with adoption of increased planting flexibility, which places even greater reliance on market prices to determine acreage planted.

Recommendation:

The loan rate formula specified in the 1985 Act for wheat and feedgrains should be used for upland cotton, ELS cotton, rice, and soybeans as well. Minimum loan rates for cotton and rice should be eliminated.

This change would allow loan rates to better reflect safety-net price support levels at 75-85 percent of past market prices. All loans would be 9-month loans, but the Secretary may extend loans if market conditions warrant. All crops then would be treated equally in terms of loan rate adjustment formulas. Mandatory marketing loans would continue for upland cotton and rice. Deficiency payments for all target price commodities would be subject to a limit of \$50,000 per person. However, the portion of the total payment attributable to any discretionary reduction of up to 20 percent in the formula loan rate would be subject to the current combined \$250,000 limit.

Price Support Loan Rates



3. Triggered Acreage Reduction Programs

Issue:

The Food Security Act of 1985 set projected carryover stock levels at which acreage reduction programs (ARPs) for wheat and feed grains are triggered. Tying ARP levels to stocks emphasizes the necessity of maintaining production that is consistent with domestic and export use. However, ARP triggers should be based on stocks relative to total use rather than on fixed stocks levels.

Background:

Currently, the ARP level for wheat is 0-20 percent if estimated carry-in stocks are 1 billion bushels or less, and 20-30 percent if stocks are more than 1 billion bushels. For feed grains, the ARP level is 0-12.5 percent if carry-in stocks of corn are 2 billion bushels or less and 12.5-20.0 percent if stocks of corn are more than 2 billion bushels.

For upland cotton and rice, ARPs are set, to the maximum extent practicable, in a manner that will result in a carryover of 4 million bales of cotton and 30 million hundredweight of rice. The maximum ARP for upland cotton is 25 percent and for rice 35 percent.

These stocks/ARP provisions reflect the importance of carryover stocks as a key factor in commodity program decisions. Compared with the 1980s, ARPs are likely to be smaller in the 1990s because of the Conservation Reserve Program (CRP), growing domestic and export use, and more competitive pricing policies. Nevertheless, commodity program decisions should continue to be made with a view of having sufficient production to meet expected needs.

Fixed stocks targets as currently authorized do not take into account changing domestic and export utilization. Consequently, fixed stocks targets could lead to ARP decisions that are inconsistent with market needs. For example, wheat carryover stocks of 1.1 billion bushels in 1992 might be desirable relative to use, but they would trigger a 1993 ARP of 20-30 percent. Applying an acreage reduction of this size to the CRP-reduced U.S. wheat base would not only be unnecessary, but would harm farmers, rural communities, domestic consumers, and U.S. competitiveness.

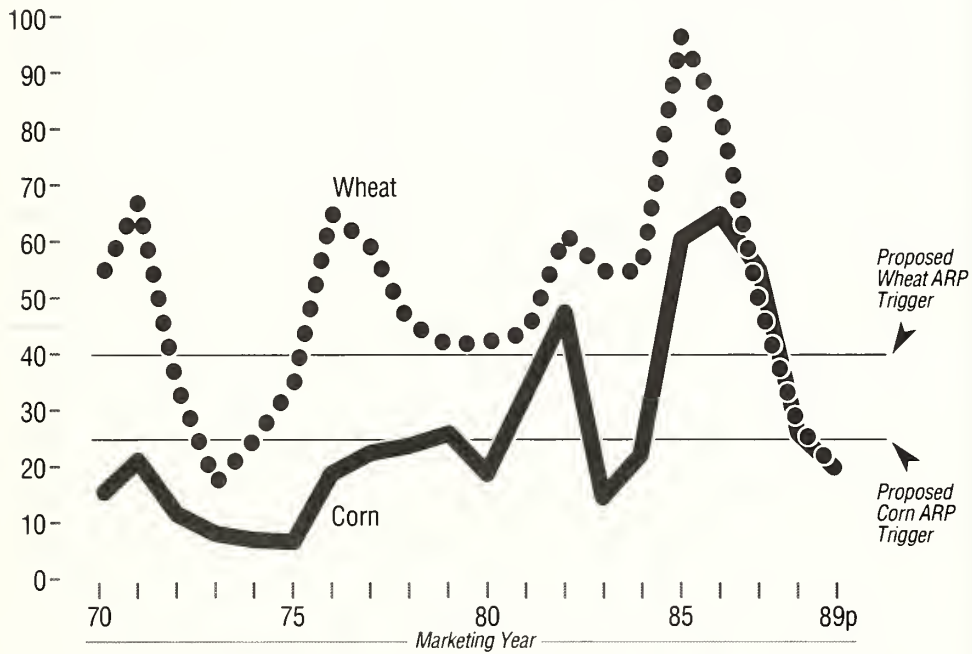
Recommendation:

For **wheat and feed grains**, trigger ARP levels for each marketing year on the basis of stocks-to-use ratios. If the ratio of ending stocks to total use for the preceding marketing year is estimated to be more than 40 percent for wheat and 25 percent for corn, the ARP level would be 12.5-20.0 percent of the base acreages. If the stocks-to-use ratio is 40 percent or less for wheat and 25 percent or less for corn, the ARP level would be 0.0-12.5 percent.

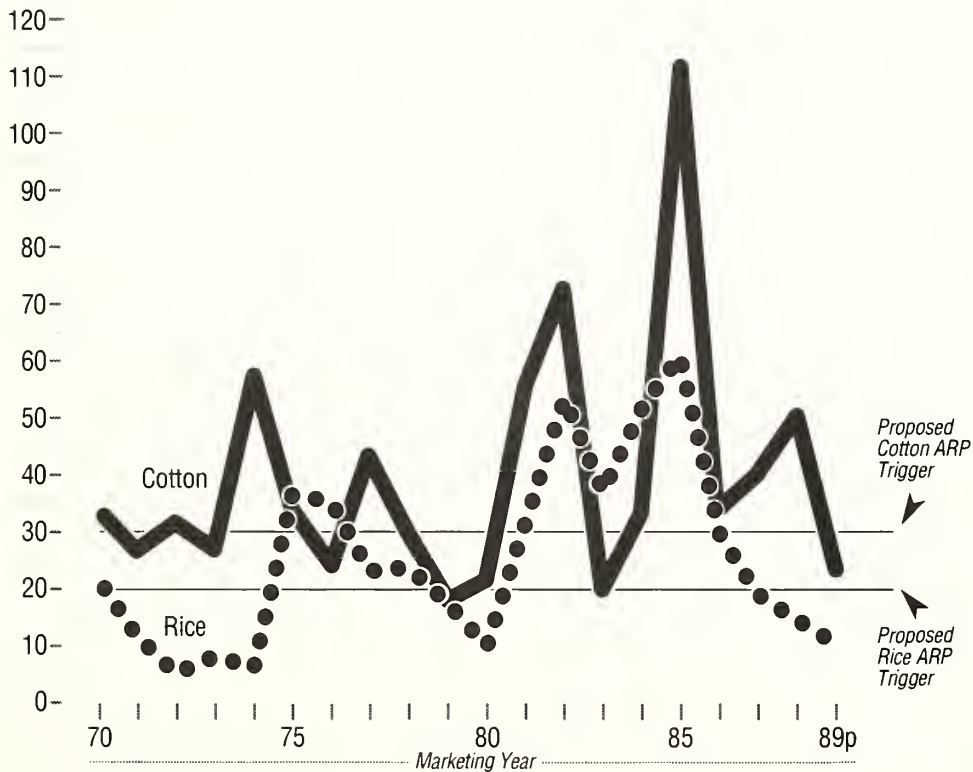
For **cotton and rice**, ARPs would be used, to the maximum extent practicable, to achieve a stocks-to-use ratio of 30 percent for cotton and 20 percent for rice.

Ratio of Carryover Stocks to Use

Percent



Percent



4. Grain Reserves and Stocks Policy

Issue:

Nonrecourse price support loans and longer term farmer-owned grain reserve loans have been major provisions in commodity programs for years. Government-owned stocks have been acquired principally as a result of these programs. While the programs have achieved many objectives, government storage and the farmer-owned reserve programs in particular have become increasingly complex, costly, and difficult to manage with certainty. These programs should be simplified, made more predictable, and aligned with underlying market conditions.

Background:

Four elements of commodity programs affect stock holdings:

- 1) supply controls,
- 2) commodity loan forfeitures and subsequent Commodity Credit Corporation (CCC) stocks release,
- 3) farmer-owned reserve programs, and
- 4) food security reserves.

The purposes of these programs are to:

- i) improve farmers' marketing opportunities in the post-harvest period,
- ii) remove commodities from markets in exceptionally low-price periods,
- iii) assure the availability of supplies for export and commercial use in case of an unanticipated demand or supply shock,
- iv) stabilize commodity prices, and
- v) help provide food security, at least to the point of guaranteeing U.S. food aid.

Is a government storage program necessary? Farmers and other entrepreneurs could hold stocks to the extent that commercial

conditions warrant without a Government reserve. For example, estimates of the increase in total stocks held as a consequence of the FOR are quite small; most of the grain would have been stored anyway without the program. It is also unclear that significant market stabilization has been accomplished. However, CCC loans and stocks have been a fixture of U.S. commodity policy since the 1930s and the Farmer-Owned Reserve (FOR) program and a Food Security Wheat Reserve (FSWR) have become entrenched since the 1970s.

Throughout farm program history, the CCC has built up burdensome stocks which have then hung over the market and eventually lowered prices. These stocks have proved costly and disruptive to eliminate. The FOR has evolved into such a plethora of trigger prices, entry and extension decisions, storage payment rates, and interest charges, that it has become questionable whether the results justify the costs.

These major problems can largely be reduced or eliminated with appropriate modifications while preserving the positive aspects of government sponsored storage.

Recommendations:

1. Retain CCC loan provisions for grain as in the 1985 Act (loan rates tied to 75-85 percent of the 5-year average of farm prices, excluding the high and low years, but no more than 5 percent reduction per year, with Secretarial discretion to further reduce the loan rate up to 20 percent to maintain competitiveness). All grain loans would be for nine months with authority for extension if market conditions warrant, as under current law. (See, "Loan Rates for Program Crops and Soybeans.")
2. Standardize the minimum CCC resale price for commodities acquired through price support activities. CCC stocks of any commodity, once acquired, could not be sold at a market price less than 110 percent of the support price. The relationship between CCC resale authority and the farmer-owned reserve would be eliminated. If a marketing loan program is in effect, the minimum resale price would be 110 percent of the lower of the loan rate or the loan repayment rate.
3. Retain the FSWR of up to 4 million metric tons.

The FSWR helps achieve the objective of guaranteeing the availability of food aid supplies and demonstrates a national commitment to global food security. The FSWR also provides for additional limited removal of supplies from low-price markets, hence providing some market support.

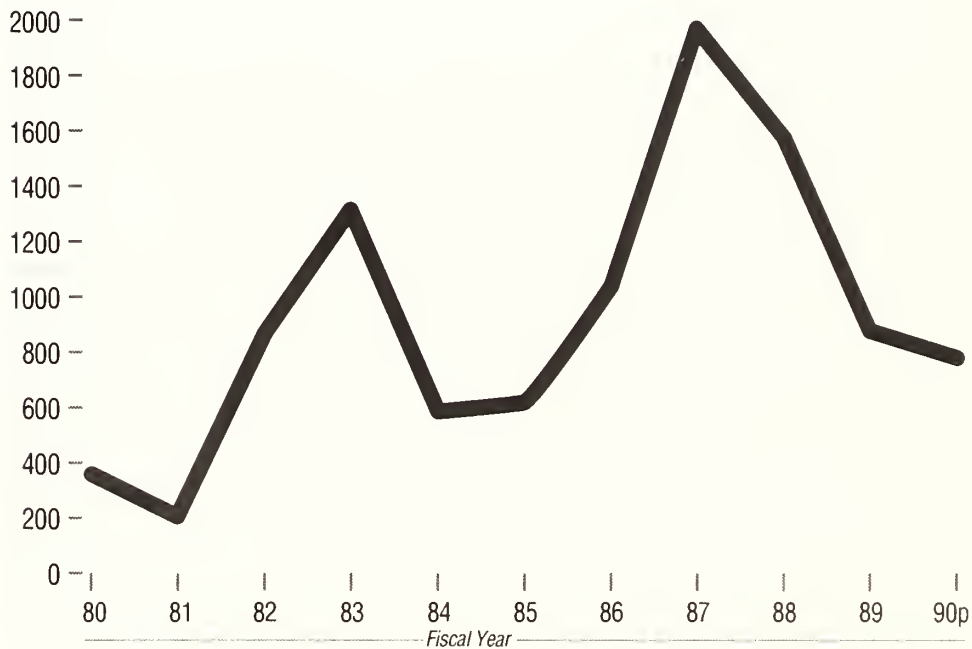
4. Modify the Farmer-Owned Grain Reserve (FOR).

- Replace 3-5 year contracts with 9-12 month contracts which would begin after the start of the marketing year (for example, during February-April).
- Make the incentive to enter the FOR a fixed storage payment paid in quarterly installments.
- Separate the FOR from the loan program. Grain under loan could be placed in the FOR but loans would not be required as a condition of entry. However, participation in the farm program would be required for entry into the reserve. The Secretary could waive this requirement under certain circumstances.
- Establish a maximum level of grain in the FOR--600 million bushels of feed grains and 300 million bushels of wheat.
- Eliminate price triggers or quantity triggers for entry or release. Farmers would individually make entry and exit decisions. Farmers would enter grain when market prices were low relative to expected prices for next season, but would not enter when entry-period prices were high. Likewise, farmers could sell grain and give up storage payments if they judged current prices relative to future prices to warrant doing so.
- Provide Secretarial discretion to prohibit the continuation of storage payments when market prices exceed 140 percent of the loan rate.
- Eliminate required FOR minimum or target levels. If farmers do not want to store despite the subsidy, the government would accept their judgment that the future holds lower prices, so FOR stocks are not necessary.

The program will provide price support when prices are low thus achieving some price stabilization, help assure commercial availability of stocks, avoid USDA micro-management of the grain market, and reduce the market uncertainties that now occur when market prices or quantities approach legislated triggers and/or loans approach maturity and extension dates.

Government Grain Storage Outlays Including Producer Storage Payments

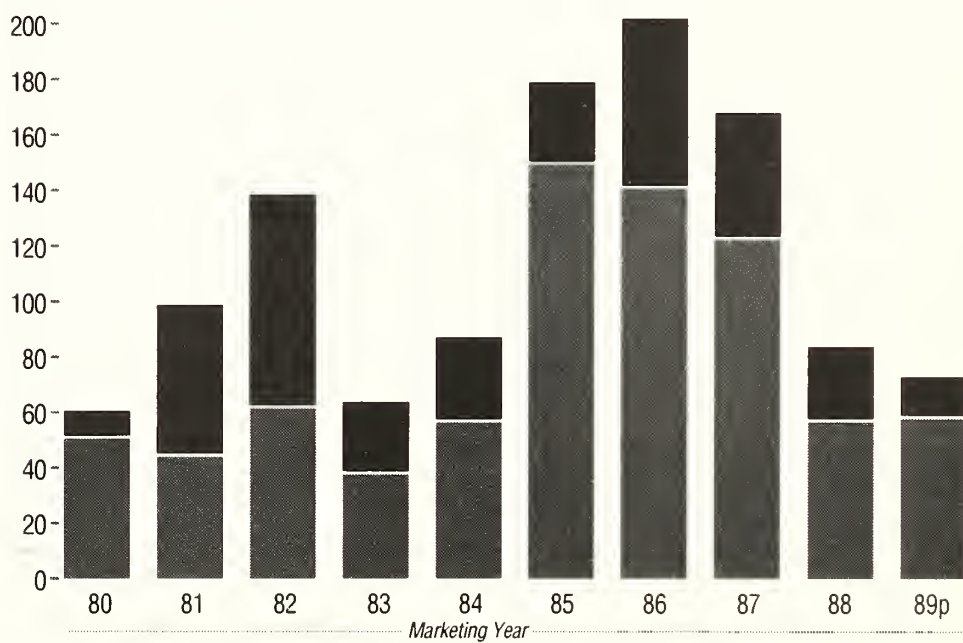
Million Dollars



Grain Carryover Stocks

Farmer-Owned Reserve

Million Tons



U.S. and World Grain Carryover Stocks Wheat and Coarse Grains

Million Tons

450-

400-

350-

300-

250-

200-

150-

100-

50-

0-

80

81

82

83

84

85

86

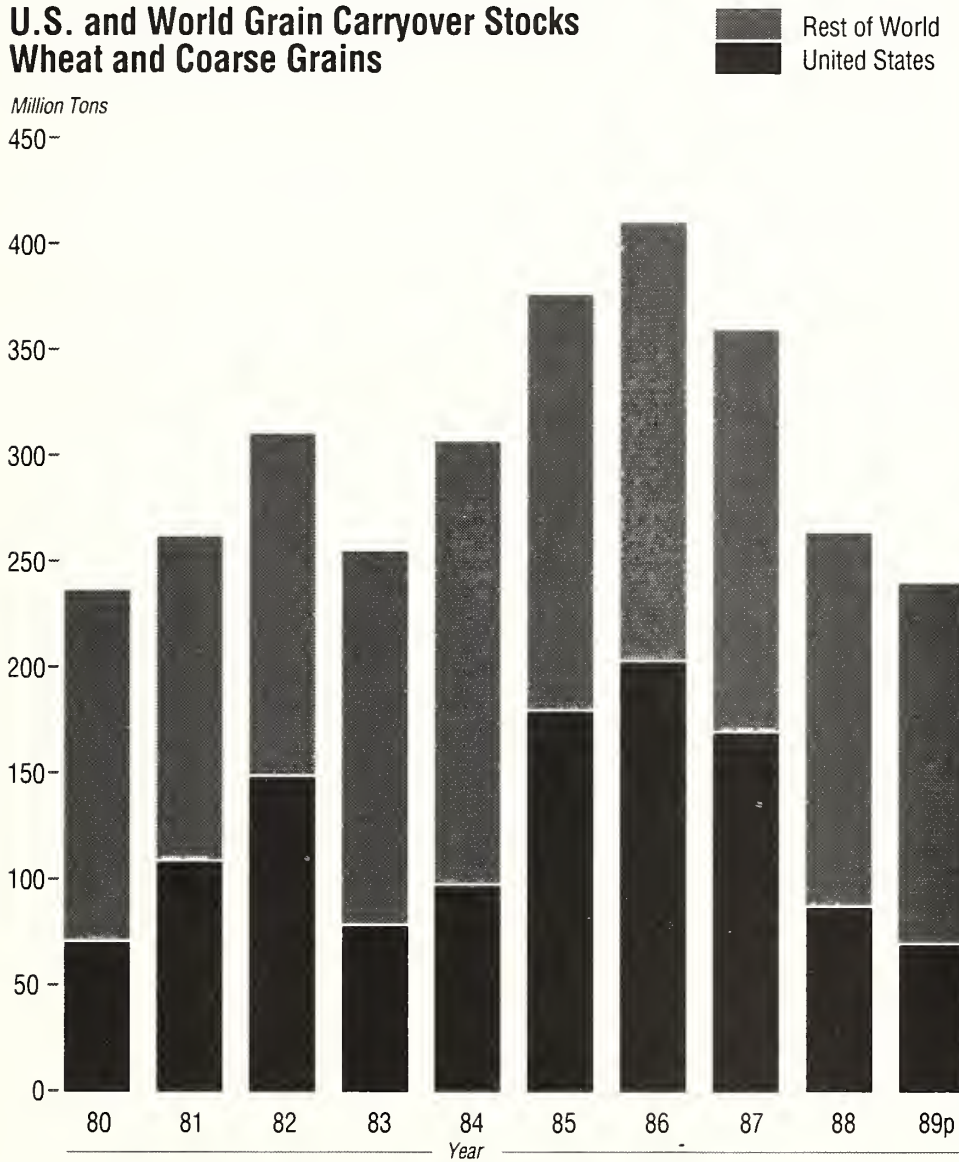
87

88

89p

Year

Rest of World
United States



5. Dairy Price Support Program

Issue:

The Food Security Act of 1985 introduced a formula for setting the support price for manufacturing milk in relation to market conditions. That formula has resulted in lower support prices which have helped reduce dairy program outlays and dairy surpluses. However, the formula provides little discretion for the Secretary of Agriculture to set the support price based on projected market conditions.

Background:

The 1985 Act established a dairy price support program that allowed support levels to adjust to market conditions. Faced with the prospect of lower returns, producers were provided the opportunity to be “bought out” through the “whole herd” dairy termination program. Support prices are set by formula with support levels declining or rising when purchases of dairy products exceed or fall below designated trigger levels. Currently, if annual purchases are estimated to be 2.5 billion pounds or less, milk equivalent, milkfat basis, the Secretary must raise the support by \$0.50 per hundredweight on January 1 of each calendar year. If purchases are expected to exceed 5.0 billion pounds, the support price is lowered by \$0.50 per hundredweight. If purchases are between 2.5 and 5.0 billion pounds, no change is made in the support price.

Government surplus purchases have fallen from 12.3 billion pounds, milk equivalent, milkfat basis, in fiscal year 1986 to a projected 8.0 billion pounds in fiscal year 1990. Uncommitted government stocks of dairy products have fallen to less than half of the nearly 10 billion pounds in fiscal year 1986. On a product basis, purchases of cheese declined from 559 million pounds at the end of fiscal year 1986 to zero at the end of fiscal year 1989; nonfat dry milk dropped from 697 million pounds to zero; and butter declined slightly from 194 million pounds to 191 million pounds. The annual cost of the dairy price support program has fallen from \$2.3 billion in FY 1986 to a projected \$0.5 billion in FY 1990.

The current price support formula provides little Secretarial discretion to set support prices based on projected market conditions. There is no discretion to marginally adjust support

prices as supply and demand conditions change. More flexible support prices would allow market forces to have a greater influence on milk production.

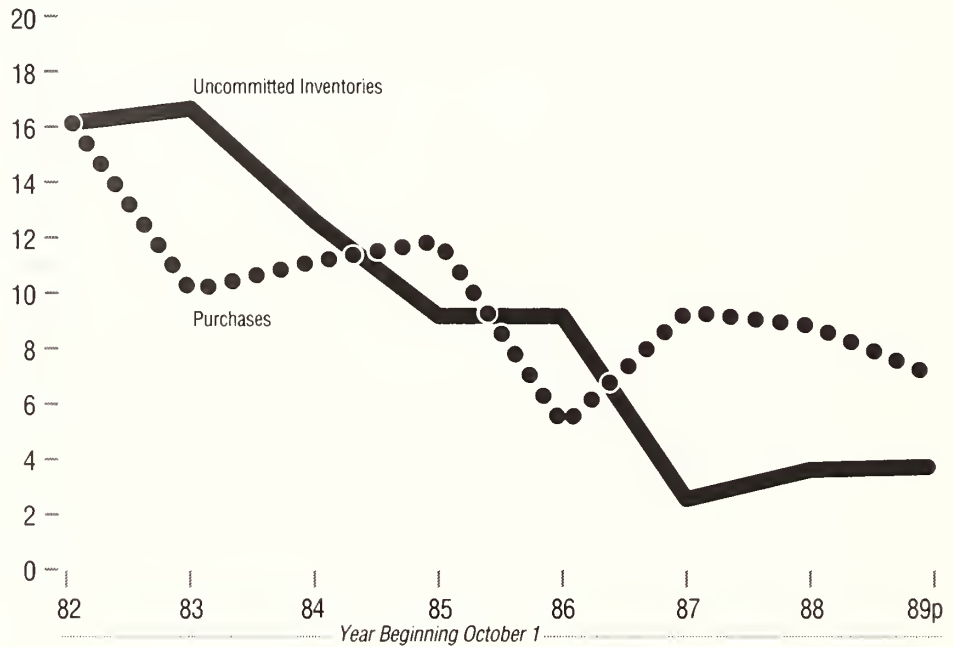
Recommendation:

The current basic price support formula should be continued. However, there should be a greater range of price support adjustments and purchase level triggers in order to give the Secretary more flexibility to reflect market conditions when setting support prices:

If government purchases are estimated to be:	The support price shall be adjusted by:
<hr/>	<hr/>
<i>(bil. lbs.)</i>	<i>(dol./cwt.)</i>
2.5 or less	+.25 to +.50
2.51 to 5.0	-.25 to +.25
5.01 to 7.5	-.25 to -.50
7.51 to 10.0	-.50 to -.75
10.0 or more	-1.00
<hr/>	<hr/>

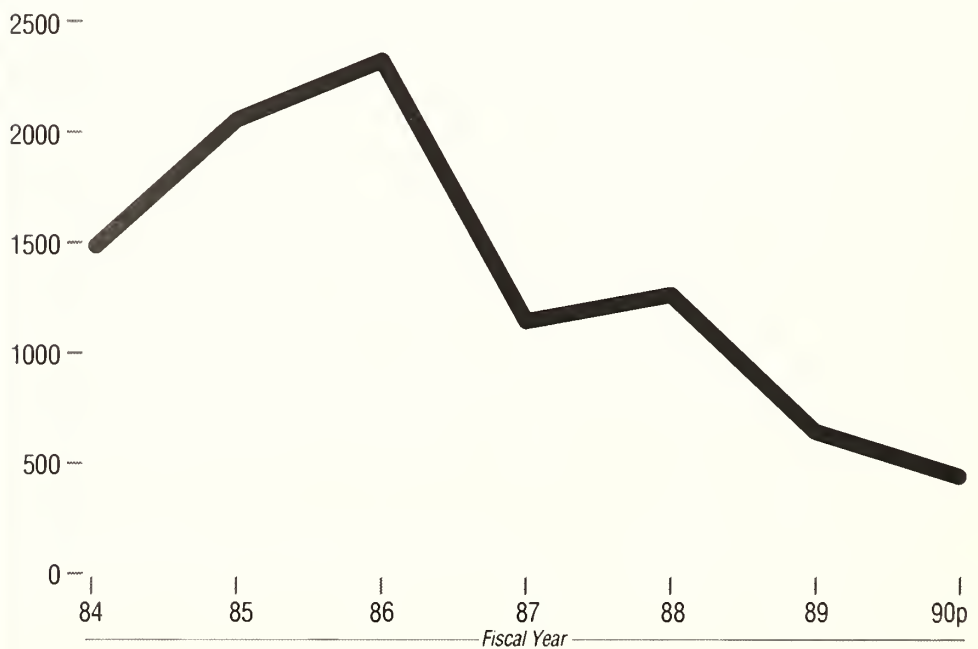
Government Dairy Purchases and Inventories

Billion Lbs. Milk Equivalent



Dairy Price Support Outlays

Million Dollars



6. Peanuts

Issue:

Peanuts are one of the few commodities for which support prices are tied to cost of production and one of the few to receive increases in support levels under the 1985 Act. In addition, the peanut program supports domestic edible peanut prices far in excess of world price levels. We should begin to assure that peanut production responds more to market incentives.

Background:

The current peanut program is a poundage quota system with a two-tiered price support. The domestic edible quota must be set at a level equal to the estimated quantity of peanuts required for domestic edible, seed, and related uses but not less than 1.1 million tons. Individual farm quotas are then allocated to farms that had a quota in 1985. Growers are permitted to lease or purchase peanut quotas from quota holders as long as the quota remains within county boundaries.

Additional peanuts---those peanuts produced in excess of a farmer's quota---are subject to marketing controls and receive a much lower support price. Strict import quotas permit domestic edible peanut prices to be maintained well above world levels.

Additional peanuts must be contracted for export by August 1 or placed under loan. Their support price is based on the value of peanut oil and meal and has remained at \$149.75 per ton since 1986.

Quota support prices are adjusted on the basis of cost of production, but increases cannot exceed 6 percent per year. The quota support price was \$607.47 per ton in 1986 and increased to \$615.87 per ton in 1989. This is over four times higher than the support price for additional peanuts and well above the world price.

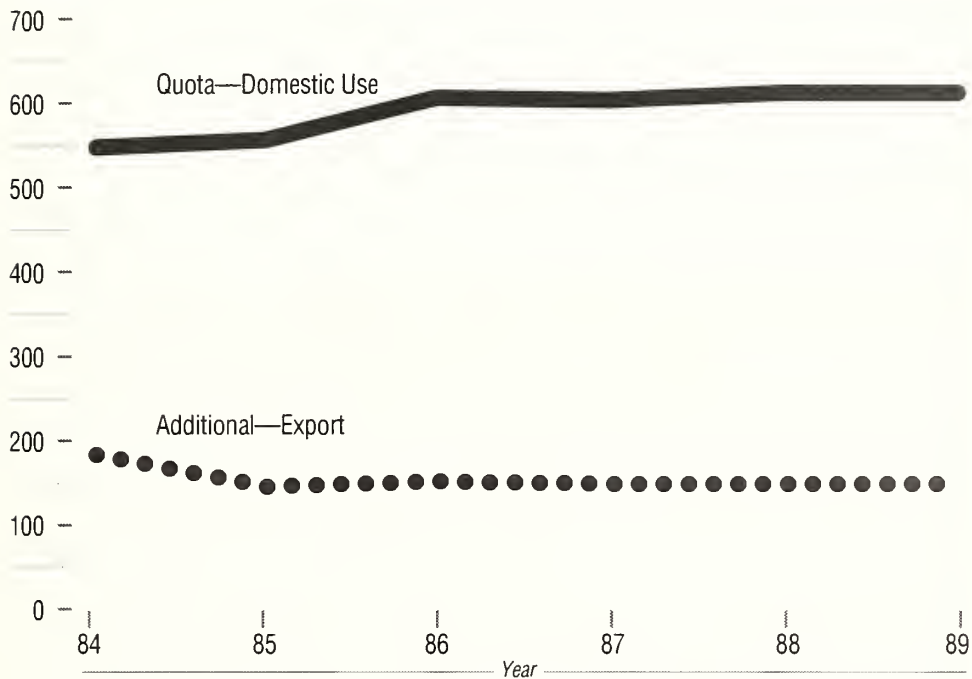
Recommendation:

Make the level of government support in the peanut industry more consistent with other commodities:

- Eliminate the restrictions on the sale and lease of quotas;
- Eliminate the cost of production escalator for the quota support rate; and
- Set the 1991 support price for quota peanuts at 90 percent of the 1985 loan rate to put peanuts on par with other crops (between 1986-90, target prices for other crops and price support levels for soybeans, honey, and dairy were reduced by 10 percent or more, while the support price for quota peanuts increased). Thereafter, the quota loan rate would be adjusted commensurate with target prices of target price commodities.

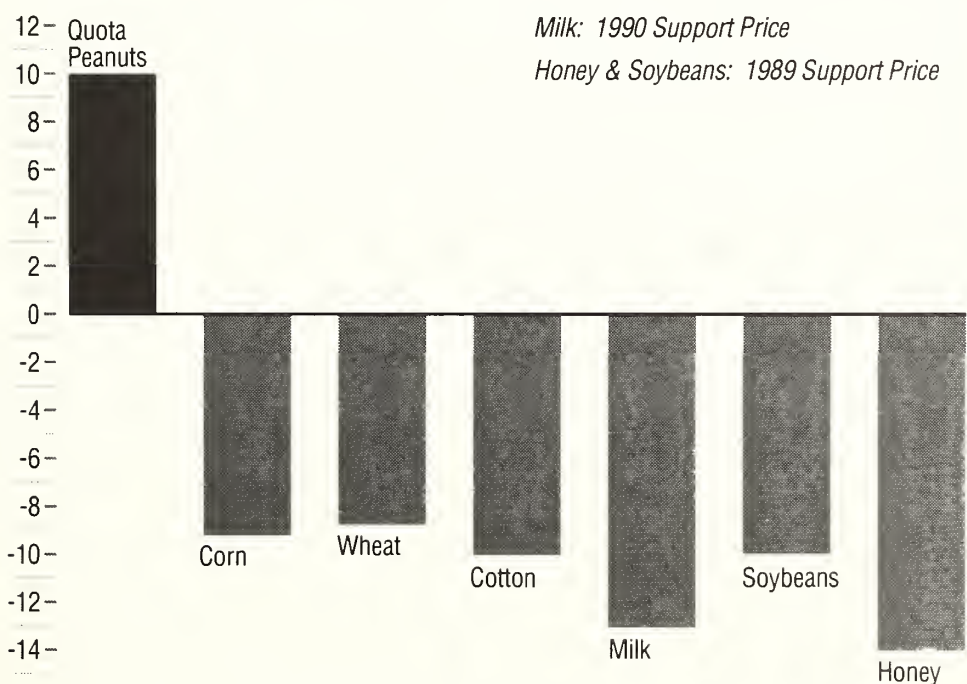
Peanut Support Prices

Dollars per Ton



Changes in Support Since 1985

Percent



Quota Peanuts: 1989 Support Price

Corn, Wheat, & Cotton: 1990 Target Prices

Milk: 1990 Support Price

Honey & Soybeans: 1989 Support Price

7. Honey

Issue:

The Food Security Act of 1985 and later legislation significantly changed the honey price support program. Key changes were the replacement of parity-based support prices with declining price support levels and a lower loan repayment option similar to a marketing loan. Despite these changes, honey price support outlays have remained high, reaching a record \$100 million in FY 1988. The honey program should be changed to a target price/deficiency payment program that would support beekeepers' incomes at a lower cost to taxpayers.

Background:

The honey program was authorized by the Agricultural Act of 1949 to induce beekeepers to remain in business in order to maintain the pollination of fruit, vegetable, and other agricultural crops. The value of honeybees as pollinators far exceeds the value of honey and beeswax produced. However, for most beekeepers the receipts from these product sales far exceed pollination fees. The main participants in the honey price support program are commercial and large part-time beekeepers, who represent less than 6 percent of all beekeepers, and who account for most honey production.

Prior to the 1985 Act, honey support prices well above domestic and world prices encouraged producers to forfeit honey to the government and imports increased sharply. Nearly two-thirds of the U.S. honey crop in 1984 was acquired by the government. Since 1985 less honey has been forfeited to the government because of the lower loan repayment option. Imports have dropped from about half of domestic use in 1985 to 20 percent in 1988.

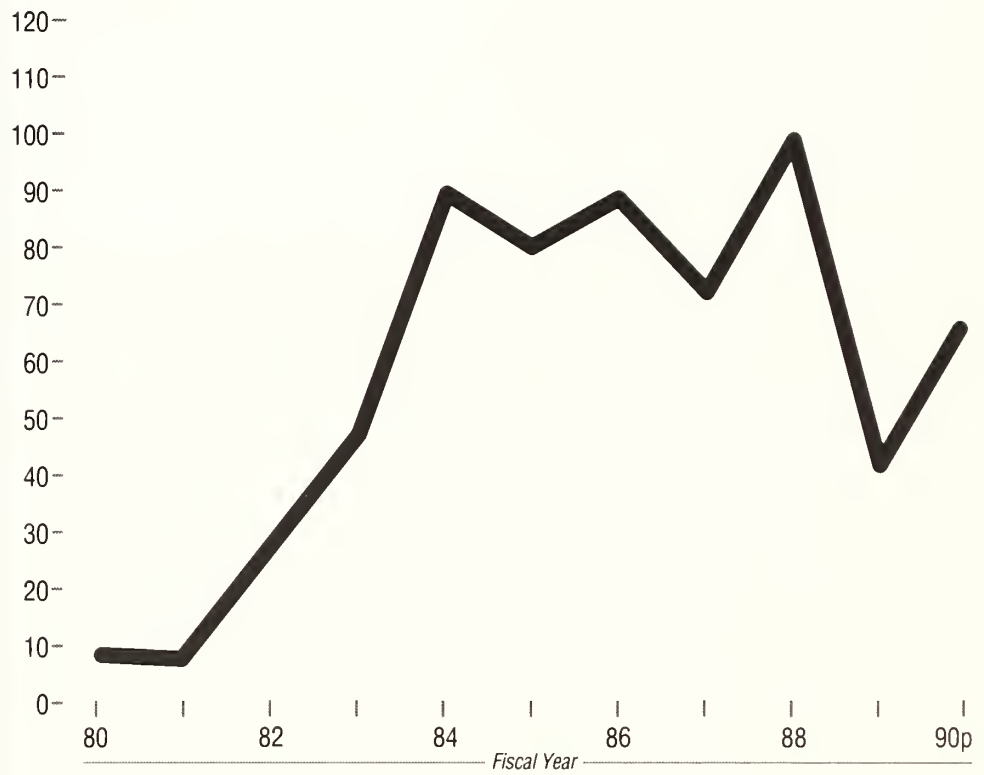
The principal purpose of the honey program is to support beekeepers' incomes. Price support loans are not the most effective means to support incomes. The government has to determine support prices and repayment levels while producers must place honey under loan to get support. The target price/deficiency payment system would be a better approach.

Recommendation:

The current honey program should be changed to an income support program that would have these key features: (1) **a target price** set at the current price support level and adjusted commensurate with changes in target prices of other target price commodities; (2) **a loan rate** set at 75 to 85 percent of the average market price during the previous five years, excluding the high and low years; (3) provision for **a loan repayment rate** below the loan rate when market price is below the loan rate; and (4) payments and loan repayment benefits subject to the combined **\$250,000 limit** per person.

Honey Program Outlays

Million Dollars



8. Wool And Mohair

Issue:

Wool and mohair producers receive payments based on the difference between a parity-based support price and market prices. As a result, wool and mohair support prices have risen since 1985 while support prices for nearly all other supported commodities have fallen. Should parity-based support prices be eliminated and income support provided by a target price/deficiency payment program that would support producer income at lower cost to taxpayers?

Background:

The wool and mohair program was authorized in 1954 on the grounds that wool was an essential and strategic commodity. It is the only commodity program with the purpose of increasing production through incentive payments to producers. Producers who produce high quality wool and mohair, which is sold at premium prices, receive greater payments per pound of wool and mohair than other producers.

Despite wool payment support prices averaging 160 percent of market prices, U.S. wool production has fallen by nearly two-thirds since 1954. Wool and mohair payments have not resulted in an expansion of the industry in part because wool production is driven by sheep meat returns, rather than wool prices or wool payments.

Wool and mohair program outlays increased sharply in the 1980s from \$30-40 million to \$100-150 million. Outlays peaked in FY 1987 at \$152 million and are projected to remain in the \$100-120 million range over the next few years. Unlike other commodity payments, wool and mohair payments per individual are not limited and about 15 percent of total payments are for more than \$50,000. About 6,000 producers or 5 percent of all producers receive nearly 80 percent of total payments. The majority of producers receive less than \$100 per year.

Recommendation:

Current parity-based payments should be changed to a target price/deficiency payment program that would give each producer the same payment rates per pound of wool and mohair, respectively.

- The initial target prices should be set at 90 percent of 1985 support prices. This would put wool and mohair at par with support for program crops, soybeans, honey, and dairy all of which were reduced by 10 percent or more over 1986-90.
- Thereafter, target prices for wool and mohair would be adjusted commensurate with target prices on other target price commodities.
- Wool and mohair payments would be subject to the combined \$250,000 limit per person.

II. Conservation and Environment

II. Conservation and Environment in Brief

The Administration proposes to extend the authorization period for the Conservation Reserve Program (CRP) through 1995 with the focus for future enrollment on problems related to water quality, wetlands, forestation and wildlife habitat. A total of 34 million acres have been enrolled through 1989 and the present authorization level of 40 million acres is adequate to address additional environmental problems and to permit some additional participation under current criteria which focus on highly erodible land.

Generally, most water quality problems may be addressed through voluntary adoption of best management practices, encouraged by education and technical assistance from USDA and state agencies. However, the solution to some water quality problems will require conversion from intensive agriculture.

In furtherance of a general commitment to policies that will further reduce losses of wetlands, the Administration proposes to restore cropped and previously converted wetlands where wetland values are high and the costs of restoration are not excessive. The affected area might be as much as 2.5 million acres. Landowners would be offered payments for permanent easements.

There are several recommended changes in annual commodity programs that would encourage adoption of farming practices that would reduce agricultural chemical use. Program requirements will permit producers to plant conserving crops and/or a combination of program crops, without losing program crop base acreage and deficiency payments. Some idled acres will be established with permanent or annual cover crops to improve water quality and wildlife habitat, reduce erosion and improve weed control.

There are several technical changes designed to make the CRP and conservation compliance more effective. Finally, there is a proposal to continue the authorization for the Great Plains Conservation Program for another 10-year period.

1. Amendments to the Conservation Reserve Program (CRP)

Issue:

How should the Conservation Reserve Program (CRP) be strengthened to help realize its potential for natural resource conservation?

Background:

The Food Security Act of 1985 authorized the Secretary to enter into contracts with producers to help conserve and improve soil and water resources through the CRP. The CRP is resulting in substantial reductions in soil erosion, improvement of water quality, protection of wetlands, and enhancement of wildlife habitat. By the end of 1989, contracts had been signed to enter almost 34 million acres of land in the program. When vegetation is fully established on this land, erosion will be reduced by an estimated 655 million tons annually. More than 2 million acres of trees and more than 7,000 acres of field windbreaks have been planted; 49,000 acres of filter strips near water bodies have been created; and about 2 million acres of wildlife habitat have been established.

Efforts are needed to encourage producers to maintain adequate cover on the land currently in the program after contracts expire so that the benefits of the program are not lost. Because implementation of the conservation title of the 1985 Food Security Act, including the conservation compliance provision, should greatly reduce excessive erosion problems, any extension of the CRP that permits new land to be accepted into the CRP after 1990 should be precisely targeted to ensure the greatest possible environmental enhancement.

Recommendation:

The Food Security Act of 1985 should be amended to enhance the effectiveness of the Conservation Reserve Program as follows-

- Protect the producer's crop base beyond the end of the contract period so long as the producer continues to leave the land in a protective cover of grass or trees. The base could be protected but continue to be held in abeyance as has been the case during the contract. Currently, producers have an incentive to return CRP land to

cropping at the end of the contract period to protect their original base acreage.

- For future contracts, require that land enrolled in CRP meet 'T' value if returned to cropping at the end of the contract period. This likely will discourage returning the most fragile and least productive CRP land to crop production.
- Allow windbreaks and shelter belts into the CRP without requiring enrollment of whole fields. This will reduce rental costs and produce long-term benefits because producers will maintain the measures long after the contracts expire.
- Amend the Food Security Act of 1985 to permit the Secretary to enter into contracts with producers during crop years 1991 through 1995.
- Provide that the amended program not exceed 40 million acres.

2. Ground and Surface Water Quality

Issue:

How should USDA conservation programs be modified to achieve greater protection of water quality?

Background:

As progress has been made in cleaning up point sources of pollution, the relative importance of nonpoint sources, including agriculture, has increased. Data reported by State water agencies indicate that agricultural nonpoint sources cause 64 percent of all river degradation and 57 percent of all lake degradation. Pesticide contamination was reported to adversely affect 4,916 water body segments in 609 counties. Significant nutrient contamination was reported in 5,246 water body segments in 859 counties.

In recent years, concerns about ground water quality have increased as surveys have detected high levels of nitrate and trace amounts of pesticides in some aquifers. Data indicate that, as of 1988, 46 pesticides had been documented to have entered ground water in 26 states as a result of normal field practices. Of the pesticides detected, 18 were at levels higher than the Environmental Protection Agency (EPA) health advisory level; seven of these have already been severely restricted or canceled. Data document that nitrate concentrations in 1,254 public water systems, which supplied water for about 1.7 million people, exceeded the maximum contaminant level during the period 1983 to 1988.

Environmental factors influence the potential for agricultural chemicals to accumulate in ground water. Contamination is more likely to occur in areas where the soils are sandy and highly permeable with little organic matter, areas with enough rainfall or irrigation water for potential deep leaching, or areas located over shallow, unconfined aquifers. EPA estimates that 1,921 of the 3,137 counties in the U.S. are highly or moderately vulnerable to groundwater contamination. Of these vulnerable counties, 340 are in areas of high agricultural pesticide use.

Current Actions.

Protecting the quality of surface and ground water against pollution originating on agricultural and forest land is one of the two top priorities of USDA's National Conservation Program for the period 1988-97. In 1988 and 1989, USDA agencies redirected funds to implement water quality activities within existing budget levels.

Beginning in fiscal year 1990, the pace of activity increased. The President requested and Congress approved increased funding for a coordinated interdepartmental Federal initiative focused on protecting and enhancing water quality. USDA, EPA, the Department of Commerce and the Department of the Interior have coordinated roles in this initiative. Under this Water Quality Initiative, USDA agencies are conducting accelerated, coordinated efforts to deliver the best available technology to producers in selected areas who need assistance in addressing high priority agricultural nonpoint source pollution problems. USDA is also accelerating research to develop farming systems that reduce the potential for contamination of ground water and will increase efforts to assist producers in applying such systems.

Action Needed.

Ongoing programs and the 1990 Water Quality Initiative are effectively addressing identified problems. Implementation of the Highly Erodible Lands and Conservation Compliance provisions of the Food Security Act of 1985 is resulting in great progress in reducing the potential for pollution resulting from sediment and sediment-related contaminants. Projects are being implemented to address nonpoint source problems identified at the regional and state level.

The primary water quality need under the 1990 Farm Bill is to help producers reduce use of chemicals in areas where there is a high potential for contamination of ground water and where the degradation of ground water quality could have immediate adverse impacts on people.

Recommendation:

To enable producers to reduce cropping on land where pollution of ground water is a critical concern, the 1990 Farm Bill should provide for extension of the current CRP time period for contracts entered into for the purposes of improving water quality.

- Land eligible for contract beyond 1990 could include-
 - All cropland within 1000 feet of a well within a state-approved wellhead protection area.
 - Cropland in shallow karst areas, where sinkholes convey dangerous runoff directly to ground water.

- Critical cropland areas within hydrologic units identified in state 319 plans as having priority problems resulting from agricultural nonpoint sources.
 - Cropland areas where agricultural nonpoint sources have been documented to pose a significant threat to the quality of habitat for threatened or endangered species.
 - Filter strips.
 - Other lands on which the Secretary determines that the potential for water pollution resulting from continued agricultural production justifies retirement from cropping.
- The Secretary would be authorized to permit more than 25 percent of the cropland in a county to be entered in the program if he determined that the potential risk to water quality posed by continued cropping outweighed the adverse impacts that retiring cropland would have on the local economy.
 - Producers could be offered the option of signing either 10-year contracts or giving permanent easements on the land under contract. The value of a permanent easement will not exceed the value of the property.
 - The Secretary will, to the extent possible, encourage the use of permanent easements.

3. Protection of Wetlands

Issue:

What additional action should be taken to protect and enhance wetland resources?

Background:

Wetlands are productive and valuable National resources. Wetlands constitute habitat crucial to many forms of wildlife and are also important in maintaining ground water supplies and water quality; in protecting shorelines from erosion; in storing floodwaters; and in trapping sediments.

Much of the wetland acreage in existence at the time of the first European settlers has been lost to other uses. The loss of wetlands to agricultural uses between the mid-1950s and the mid-1970s is estimated to be over 11 million acres - an annual loss of about 550,000 acres. More recently the rate of loss has slowed, but loss is still occurring. Recent loss of wetlands has been concentrated to a large degree in the Southeast and Lower Mississippi Delta. Losses in the North Carolina pocosin area and in Minnesota's prairie pothole region have also been substantial.

Existing Federal programs that help protect wetlands include the Water Bank Program, the Clear Water Act's section 404 Wetland Permit Program, and the Food Security Act of 1985. The Swampbuster provision of the Food Security Act discourages draining of wetlands for agricultural production. Undrained wetlands used for crop production are currently eligible for the Conservation Reserve Program. Slightly more than 400,000 acres of such wetlands have been placed in the program. The National Wetland Priority Conservation Plan required by the Emergency Wetland Resources Act of 1986 and the North American Waterfowl Management Plan signed by the U.S. and Canada both call for increased acquisition and restoration of wetlands. The National Wetlands Public Forum recommended implementing an Agricultural Wetlands Reserve Program to fund permanent easements and restoration of 2.5 million acres of wetlands converted to agriculture.

Recommendation:

The 1990 Farm Bill should support efforts to increase wetland resources by providing for extension of the current CRP time period for which contracts may be entered into for the purposes of restoring cropped wetlands.

- Lands eligible for contract beyond 1990 may include-
 - Existing cropped wetlands.
 - Restorable cropland wetlands where the wetland values of the restored land and the probability of successful restoration are both high and the cost of restoration would not be excessive.
- Producers may be offered permanent easements on the land under contract.
- Producers who give a permanent easement would be able to choose to receive either 10 annual payments or one up-front payment not to exceed the value of the property.
- The Secretary will, to the extent possible, allocate at least 10 percent of the reserve acres to wetland protection and restoration through wetland permanent easements.

4. Sustainable Agriculture

Issue:

What changes are needed in commodity program requirements to ensure that Federal programs do not discourage producers who are interested in adopting sustainable agricultural systems?

Background:

Sustainable agriculture generally means an agriculture that, for the foreseeable future, will be productive, competitive and profitable; conserve natural resources; help protect the environment; and enhance public health and safety. Sustainable agricultural systems make use of components such as crop rotations, conservation tillage systems, new plant varieties and improved methods for quantifying nutrient needs of crops.

There is a consensus that existing commodity program provisions tend to discourage adoption of sustainable systems, even in cases where such systems seem likely to prove economically and environmentally beneficial. Specifically, producers who adopt rotations to reduce the need for fertilizer and chemical pest control may have to give up part of their base.

Recommendation:

The 1990 Farm Bill should modify commodity program requirements to allow flexibility in crop bases and to protect the crop base of producers who plant legumes, grasses, or conserving crops as part of a sustainable agriculture rotation.

- Producers who plant a part of their base acres to a soil-building crop would be able to receive deficiency payments for those acres provided they did not harvest the crop.
- Producers would not receive deficiency payments for a conserving crop that was harvested.
- Producers would be allowed to plant any combination of program crops and oilseeds on their permitted acres and still be eligible to receive deficiency payments on the basis of the pre-1990 Farm Bill cropping history.

5. Conservation Compliance

Issue:

Does the Conservation Title of the Food Security Act (FSA) of 1985 provide adequate protection for highly erodible land idled under annual commodity programs?

Background:

Subtitle B of the Conservation Title, known as Highly Erodible Land Conservation, provides that producers protect highly erodible cropland. Accordingly, the 1985 FSA stipulates that any person producing an agricultural commodity on highly erodible land in any given year after January 11, 1990, must have in place and be actively implementing an approved conservation plan. However, because the 1985 FSA provides only for annual coverage on land used to produce agricultural commodities, implementation of an approved conservation plan was not required on idled acres.

Recommendation:

The 1990 Farm Bill should amend the Conservation Compliance provision of the Food Security Act of 1985 to explicitly include highly erodible lands that are idled under annual commodity programs.

6. Multi-Year Set-Aside

Issue:

Current management practices on acreage idled under annual acreage reduction programs result in lost opportunities to protect natural resources. How can management on this land be improved?

Background:

Current program provisions require Acreage Conservation Reserve (ACR) land idled under annual programs to be protected from wind and water erosion, weeds and rodents in a manner approved by the County Agricultural Stabilization and Conservation Committee. The county committee determines whether a cover crop is required on ACR acres.

A large part of the ACR acreage is now left unseeded and mowed or tilled to control weeds. But, weeds are in some cases poorly controlled. In addition, perennial cover is seldom established on ACR acres. These management practices result in lost opportunities to: naturally improve soil fertility; reduce weed problems on cropped land; improve water quality; improve habitat for wildlife and birds; and have good quality forage available for drought emergencies.

Recommendation:

- Producers would be required to plant one-half of the ACR, not to exceed 5 percent of a crop acreage base, to an annual or perennial cover crop each year.
- If the farmer chooses to establish a perennial cover crop, the Federal government would cost-share establishment expenses on a 50/50 basis. The producer would be permitted to receive cost-share assistance on no more than one-half of the ACR, not to exceed 5 percent of the crop acreage base, in any 5-year period. No cost-share assistance would be provided if the farmer chooses to plant an annual cover crop.
- Exceptions to the planting requirements would be available for producers with rotations or similar practices for which planted cover is not consistent with sound farm management practices.
- Haying and grazing on all ACR acres would be permitted under the same conditions as currently permitted on ACR acres, except that

mowing or grazing would not be permitted on acres planted to perennial cover prior to July 1.

- Perennial cover would be considered as planted to the program crop for deficiency payment purposes in the event of an acreage reduction program percentage of less than 5 percent of base.

- In any year in which the annual acreage reduction percentage is less than 5 percent of a crop acreage base, and less than the acreage for which cost share assistance is made available, producers would be permitted to exceed their normal crop acreage and plant the crop on cropland other than that for which cost-share assistance has been approved. This provision allows farmers to expand acreage in response to market signals while maintaining perennial cover on ACR land.

7. Great Plains Conservation Program

Issue:

What action is necessary to help producers in the Great Plains area protect soil and water resources against the severe climatic conditions that can damage fragile resources of the area?

Background:

The Great Plains area is subject to severe and erratic climatic conditions. Severe droughts of long duration occur periodically. The soils that formed in the arid climate are generally highly erodible.

Low moisture conditions resulting from drought resulted in land damages from wind erosion that reached near record levels during the 1988-89 season. Current predictions are that these conditions are likely to continue in the foreseeable future and that significant additional damage will occur on unprotected land.

In 1956 Congress authorized the Great Plains Conservation Program to help farmers and ranchers to prepare and implement a management program that will help prevent damage resulting from the erratic climate. The program provides technical and financial assistance, under long-term contracts, to farmers and ranchers who develop acceptable plans for the entire farm or ranch. Assistance is available to mitigate climatic, soil, topographic, flood, saline and other natural hazards of the area.

The program has been very effective in solving problems in the region. For each acre under contract, soil erosion is reduced by 3.8 tons, and nearly 0.2 of an inch of soil moisture is conserved. Nearly 443 pounds per acre of additional forage is produced each year as a result of improved management. On cropland the accomplishments are greater: average erosion reduction is 11 tons per acre and 0.6 of an inch of soil moisture is conserved.

The program was extended in 1969 and again in 1981. The current authorization will expire on September 30, 1991. The total cost limit of the program (excluding administrative costs) is set at \$50 million annually, not to exceed \$600 million over the life of the program.

Recommendation:

The 1990 Farm Bill should authorize continuation of the Great Plains Conservation Program. Specifically, it should-

- Amend the Soil Conservation and Domestic Allotment Act to change the termination date of the current authority from September 30, 1991, to September 30, 2001.
- Increase the limit on total program costs (excluding administrative costs) from \$600 million to \$900 million.

III. International Programs

III. International Programs in Brief

Among the primary objectives of the Food Security Act of 1985 were those of restoring U.S. agricultural export competitiveness and regaining overseas markets for U.S. farm products which had been lost in previous years. By providing for more market-oriented domestic farm programs and by authorizing and expanding various export authorities of the Department, the 1985 Act has been very successful in meeting these objectives.

The Administration's 1990 Farm Bill proposals for export programs build on the progress which has been achieved since enactment of the Food Security Act of 1985. Those export programs, which have improved our ability to compete in international markets, are proposed to be extended.

The Administration proposes to extend the provisions of the Export Enhancement Program (EEP) provided in the Food Security Act of 1985, but without mandated program levels or commodity programming requirements. The program is an integral part of the U.S. trade policy strategy for achieving a Uruguay Round agreement.

The Targeted Export Assistance (TEA) program is also proposed to be extended. This program assists in the export of agricultural commodities and products. Both the EEP and the TEA will be reassessed at the conclusion of the Uruguay Round.

The Commodity Credit Corporation (CCC) export credit guarantee programs are authorized by the CCC Charter Act. The Food Security Act of 1985 established a minimum annual program level for GSM-102 short-term guarantees (\$5.0 billion) and a maximum annual program level for GSM-103 intermediate-term credit guarantees (\$1.0 billion for FYs 1989 and 1990). The Administration proposes that these program levels be continued as currently written.

Several U.S. foreign food aid programs, including Public Law 480 and the Food for Progress Program, should be reauthorized in the 1990 Farm Bill. Among the proposals under consideration are revisions designed to improve program operations and administration. The Administration's position will be forwarded to Congress in the near future.

1. Export Enhancement Program (EEP)

Issue:

The mandate to operate the Export Enhancement Program (EEP) expires on September 30, 1990. Should the EEP be continued?

Background:

Section 1127 of the Food Security Act of 1985 directs the Secretary of Agriculture to formulate and carry out a program in which agricultural commodities acquired by the Commodity Credit Corporation (CCC) are provided to U.S. exporters to encourage the development, maintenance, and expansion of export markets for U.S. agricultural commodities and products. This program has been an integral part of our trade policy strategy to influence in a positive manner the outcome of the Uruguay Round of Multilateral Trade Negotiations.

Recommendation:

The EEP should be continued without specified program limits and commodity coverage. Programs under the EEP should not be tailored to individual commodities, because such programs could be counterproductive to U.S. export objectives depending on changing commodity situations and competitor actions. In order to counter foreign subsidies, to help maintain a strong competitive position for U.S. agriculture in world markets, and to otherwise further U.S. trade policy objectives particularly with regard to the Uruguay Round, the 1990 Farm Bill should continue the EEP. The program is needed until others, particularly the European Community, have demonstrated their willingness to negotiate seriously to accomplish the staged reduction of all trade distorting practices. At the conclusion of the Uruguay Round, the EEP will be reassessed.

2. Targeted Export Assistance (TEA) Program

Issue:

The legislative requirement that the Department carry out a Targeted Export Assistance (TEA) Program expires at the end of fiscal year 1990. Should the program be continued?

Background:

The Targeted Export Assistance (TEA) Program was mandated by Section 1124 of the Food Security Act of 1985 to provide export assistance for products which have been affected by foreign unfair trade practices in foreign markets.

Recommendation:

The Targeted Export Assistance (TEA) Program should be reauthorized at a program level not to exceed \$200 million annually. At the conclusion of the Uruguay Round, the TEA will be reassessed.

3. Export Credits (GSM 102 and 103 Programs)

Issue:

At what level should the GSM 102 and 103 programs be authorized?

Background:

These programs are authorized by the Commodity Credit Corporation (CCC) Charter Act, and Section 4 of the Food for Peace Act of 1966, as amended. Current statutory language in the Food Security Act of 1985 establishes the following annual authorization levels:

GSM-102 - not less than \$5 billion (through FY 90)

GSM-103 - not more than \$1 billion (FY 89 and 90)

These programs have been successful in expanding U.S. agricultural exports.

Recommendation:

It is recommended that the current statutory language with respect to the levels of program activity be maintained. This would establish the appropriate floor for GSM 102 and ceiling for GSM 103.

4. Food Security Wheat Reserve (FSWR)

Issue:

Extension of authority to replenish the Food Security Wheat Reserve (FSWR)

Background:

The FSWR, created in 1980, was authorized at a level of 4 million metric tons of wheat owned by the Commodity Credit Corporation (CCC). The President is authorized to use this wheat during periods of tight U.S. wheat supplies to provide urgent humanitarian relief under prescribed circumstances.

In addition to identifying uses of the wheat, the authorizing legislation also includes replenishment provisions. Section 1013 of the Food Security Act of 1985 extended the authority to replenish the FSWR only through September 30, 1990. Any remaining stocks in the FSWR at that time may only be used in accordance with the provisions of the authorizing legislation.

The FSWR has been used during FY 1989 and FY 1990 to maintain necessary levels of wheat food aid under P.L. 480. By the end of FY 1990 an estimated 500,000 - 800,000 tons of wheat will remain in the Reserve. (See previous discussion of the FSWR under "Grain Reserves and Stocks Policy.")

Recommendation:

Extend the replenishment authority for the FSWR.

5. International Development and Food Aid

Issue:

Extension and revision of P.L. 480 and Food for Progress Act.

Background:

Although P.L. 480 is a separate act, it is reauthorized and extended as part of Farm Bill legislation. This has, in recent years, also been used as an opportunity to amend P.L. 480.

The Food for Progress Act authority contained in the Food Security Act of 1985 will expire September 30, 1990, unless it is reauthorized. The program is an effective food aid tool.

Recommendation:

The Administration's position and recommendations will be forwarded to Congress in the near future.

IV. Crop Disaster Assistance Program

IV. Crop Disaster Assistance Program in Brief

The Administration proposes to replace the current crop insurance program with a new crop disaster assistance program. The new program would provide payments for individual losses whenever county-wide harvested yields fall below 65 percent of normal on a crop-by-crop basis. Individual losses would be based on the difference between the producer's harvested yield and 60 percent of the normal harvested yield for the county. Payments would be based on 65 percent of the three-year average market price for that crop. There would be a \$100,000 payment limitation per person. Eligibility would be limited to producers with gross annual incomes below \$2 million, and compliance with certain conservation requirements would be required. Recipients would be ineligible for Farmers Home Administration disaster loans as well as the Commodity Credit Corporation (CCC) emergency feed programs for the same losses.

The new program would extend to all crops currently covered under the crop insurance program, plus hay and forage. These crops account for over 93 percent of total U.S. cropland.

The proposal essentially creates a standing disaster assistance program similar in many respects to the programs authorized by the ad hoc disaster legislation for 1988 and 1989. It should end the need for such ad hoc legislation, while providing producers with greater certainty that Federal assistance will be available when needed. It provides better targeting of disaster assistance to producers with catastrophic losses, and is less costly to administer than the current crop insurance program. It provides a catastrophic umbrella under which the private sector can offer individual farmer protection.

1. Crop Disaster Assistance Program

Issue:

Budget constraints and dissatisfaction with current programs require changes in Federal disaster protection for farmers. A standing program providing disaster assistance to farmers in the event of widespread crop losses is proposed. Federal crop insurance would be eliminated. The disaster assistance program would provide a safety net protecting farmers and rural communities against catastrophic crop losses. This program should end the need for ad hoc disaster legislation.

Background:

Before 1980, USDA provided disaster assistance for producers of wheat, rice, feed grains, and cotton, mainly through direct cash payments under the disaster payment program. The program cost an average of \$510 million annually from 1974 through 1980.

The disaster payment program was criticized as being too expensive and encouraging additional production in high-risk areas. The Federal Crop Insurance Act of 1980 was enacted to replace the disaster payment program with multi-peril crop insurance for which farmers paid a portion of the premium cost of the program.

Experience since passage of the 1980 Act has been disappointing. Participation in the crop insurance program has remained under 40 percent of eligible acres (and until 1989, under 25 percent). The program has suffered from poor financial performance and has failed to prevent passage of costly ad hoc disaster legislation when crop losses are widespread. Total expenditures for Federal crop insurance and ad hoc disaster assistance have averaged more than \$1.1 billion annually over the period 1981-88.

A standing disaster assistance program that provides protection against catastrophic losses would allow private insurers to develop multi-peril crop insurance coverage for individual farmers.

Providing disaster protection on the basis of county harvested yield would reduce the problems associated with encouraging production on high-risk cropping areas that occurred with the disaster payment program of the 1970s.

Recommendation:

Repeal legislation for the Federal Crop Insurance Program and propose legislation that would establish a standing disaster assistance program administered through ASCS that would pay producers in the event of an area-wide catastrophic loss:

- Eligibility would include those crops currently covered by FCIC, plus hay and forage. These crops account for over 93 percent of the total U.S. cropland.
- Disaster payments would be available for producers of crops in counties where actual county average harvested yield falls below 65 percent of normal as estimated by the National Agricultural Statistics Service (NASS). If data are insufficient at the county level to ensure reasonable assessments of normal harvested yield, regional or State yields will be used.
- Once a county is declared eligible, individual farmers receive disaster payments for any shortfall in their own farm harvested yield below 60 percent of the NASS county average yield for harvested acres.
- Payments for reduced yield and failed acreage would be based on 65 percent of the 3 year average market price for each eligible commodity. Payments for prevented planting would be based on 33 percent of the 3-year average market price.
- Producers would be subject to a \$100,000 payment limitation and would not qualify for payments if their gross annual income exceeded \$2 million, similar to recent disaster legislation. Producers would be required to comply with conservation provisions of the Food Security Act of 1985.
- Producers receiving disaster payments under this program would not be eligible for FmHA Emergency Loans or CCC emergency feed program for the same losses.

V. Food and Consumer Services

V. Food and Consumer Services in Brief

The Administration supports full funding of benefits for USDA's domestic food assistance programs for the needy.

The Administration proposes reauthorization of the Food Stamp Program. This is the major provision in this title and is essentially a current services reauthorization which would maintain existing annual benefit increases which keep pace with food cost increases, as well as cost of living adjustments to income eligibility thresholds.

Food stamp legislation should strengthen program accountability because the needy are best served by strong programs with strong accountability. The Administration proposes provisions to encourage more rapid implementation of electronic benefit transfer (EBT), which reduces program vulnerability to fraud. It will also improve monitoring of stores accepting food coupons and increase penalties for fraudulent activities by stores.

The Administration also proposes food stamp provisions that would set aside special grants to reach out to the homeless. Most homeless are already eligible, but few participate. Innovative activities will increase their participation, improve their nutritional status, and help give them a better chance.

Other Administration food stamp proposals include requirements that single parent families cooperate with local child support enforcement officials. This is expected to increase recipient income and reduce their need for food stamps. Finally, expanded waiver authority for demonstration projects would encourage testing of more welfare reform ideas, and improvements to the citizenship declaration would simplify eligibility determinations.

The Temporary Emergency Food Assistance Program (TEFAP) would be reauthorized such that both surplus and purchased commodities could continue to be donated. While most TEFAP recipients qualify for food stamps, they often do not apply. Funding of \$120 million for purchased commodities and \$50 million for administrative funding would be authorized.

1. Temporary Emergency Food Assistance Program (TEFAP) - Reauthorization and Funding of Commodity Purchases

Issue:

Reauthorization of the distribution of surplus commodities through the Temporary Emergency Food Assistance Program (TEFAP) and the purchase of commodities to supplement the distribution of surplus commodities.

Background:

USDA instituted household distribution of commodities in 1981 after accumulating large inventories of surplus dairy products. Over 5 billion pounds of commodities (valued at over \$5 billion) have been distributed since the program began, and at its peak in 1984, TEFAP provided over \$1 billion annually in commodities to 15 million participants. A combination of aggressive distribution and changes in dairy price-support legislation greatly reduced surplus dairy inventories to the point that cheese and nonfat dry milk donations were discontinued during fiscal year 1988.

In the Hunger Prevention Act of 1988, as an interim measure Congress authorized purchases of additional commodities for two years to avoid an abrupt cutoff of commodity distribution. The 1988 law required the Secretary to spend \$120 million in fiscal years 1989 and 1990 to purchase, process, and distribute commodities. It also required \$40 million to be spent in fiscal years 1989 and 1990, and \$32 million in 1991, to purchase commodities for soup kitchens and food banks serving the homeless. Over 141 million pounds of commodities such as peanut butter, canned pork, beans, egg mix and raisins were purchased for TEFAP distribution in 1989.

USDA commodities distributed through TEFAP complement the distribution of private food donations. Without USDA commodities, some private nonprofit agencies may close, decreasing access of low-income households to USDA products **and** privately donated food.

Recommendation:

Reauthorize the distribution of surplus commodities through TEFAP and continued funding for commodity purchases (\$120 million annually). Depending on market conditions, available supplies, the appropriateness for use in TEFAP, and the requirements of the Hunger Prevention Act, the Secretary will first look to CCC when purchasing commodities.

2. TEFAP Administrative Funding

Issue:

Reauthorization of administrative funding for State and local distribution costs in the Temporary Emergency Food Assistance Program (TEFAP).

Background:

USDA instituted household distribution of commodities in 1981 after accumulating large inventories of surplus dairy products. During fiscal year 1989, USDA distributed commodities valued at over \$230 million. Since 1983, \$50 million has been authorized annually for State and local distribution costs. The Hunger Prevention Act of 1988 also permits TEFAP funds to be used for State and local agency costs of distributing non-TEFAP commodities.

Forty percent of administrative funds must be passed on to local agencies. Without administrative funding, some local agencies may close. Other agencies may be unwilling to distribute USDA commodities if surpluses return. Also, Federal funding increases the administrative stability of the local organizations that distribute TEFAP commodities.

Recommendation:

Provide \$50 million for administrative funding.

3. Food Stamp Program Integrity

Issue:

Food stamps are intended to help low-income Americans buy the nutritious food they need. By law, food stamps can be used only to buy food in authorized grocery stores. However, in practice, food stamps are sometimes diverted to other uses through sale or barter. As a result, family members who should receive food through the program do not.

Background:

Rapidly developing possibilities in the area of electronic transfers present significant opportunities to better safeguard food stamp benefits so that dollars are spent on food. Electronic benefit transfer systems eliminate paper coupons, replacing them with a plastic card that can be used only to buy food in grocery stores. Not only can electronic systems help ensure that food stamp dollars are actually spent for food for needy families, they can also reduce opportunities to divert benefits; eliminate the stigma often associated with using coupons; and open new possibilities for integrating services from a variety of State and Federal benefit programs. These systems are at the forefront of modern technology.

Several areas have already experimented with electronic benefit transfer systems under USDA's leadership and encouragement, with promising early results. Those with a direct interest in the system—food stamp participants, retailers, welfare workers, and bankers—prefer electronic benefits to coupons. This program of research, evaluation, and development can and should be accelerated, with the expectation that electronic benefit transfer become an operational reality in interested States during the life of the Farm Bill.

While electronic systems hold out the promise of strengthening the program's integrity in the foreseeable future, we must also move to stem the tide of today's abuse at its source. The illicit trade in food stamps is sustained by some unscrupulous store owners and operators who illegally accept coupons and redeem them for cash. To eliminate the black market, we must increase the cost of such illegal actions through tougher penalties, more investigations, reduced opportunities to redeem illegally obtained coupons and better systems to detect and ferret out abuse.

Recommendations:

We propose to expedite tests of electronic benefit transfer systems now in progress and allow States to undertake their own projects by April 1992 making use of the knowledge gained by the existing efforts where they can assure that the project will cost no more than current issuance systems.

We propose new and tougher penalties against individuals who illegally sell coupons, solicit the sale of coupons, or accept illegally obtained coupons. We propose mandatory minimum penalties for individuals convicted of purchasing illegal drugs, firearms, or explosives with food stamps. In addition, we propose more frequent recertification of stores which participate in the program, more specific limitations on the types of retail and wholesale concerns that may participate, fines for retailers who accept loose coupons, enhanced income verification methods, and improved claims procedures.

We propose the establishment of a strike team of government investigators to expose those who abuse the program, increasing existing staff devoted to this effort.

4. Improved Child Support Enforcement

Issue:

Many single-parent families in the Food Stamp Program receive no monetary support from the absent parent.

Background:

President Bush has identified helping families with children as a priority for this Administration. Efforts to strengthen child support enforcement are especially important. Many single-parent families either have not secured child support orders or are not receiving the support to which they are entitled.

The Food Stamp Program, and other Federal programs, do not require single-parent households to cooperate with local child support enforcement officials. Requiring such cooperation signals the Administration's belief that the primary responsibility for children lies with both parents, with government assistance available as a supplemental source of help for needy children. Improving child support collections increases income available to low income families and reduces the cost of the Food Stamp Program and other programs. An estimated 210,000 food stamp households not currently receiving child support would be helped by such a proposal.

Recommendation:

Households with an absent parent should cooperate with the local child support enforcement agency as a condition of food stamp eligibility. Parents who do not cooperate will be ineligible for program benefits, although their children will still be eligible.

5. Improved Assistance to the Homeless

Issue:

Improve the access for homeless families and individuals to food stamps, the country's major food assistance program.

Background:

The Food Stamp Program makes special efforts to facilitate participation among the homeless. Nevertheless, few homeless persons participate although most, if not all, are eligible for program benefits.

The homeless present unique challenges to the Food Stamp Program for many reasons. In addition, it is difficult to tailor the benefit - coupons to purchase food for home preparation - to the circumstances of the homeless - who often are without cooking or storage facilities.

Recommendations:

To make it easier for the homeless to receive food stamps, we propose to offer special grants to non-profit groups to test innovative ways to reach out to the homeless with information, assistance, and other services.

More homeless might benefit from the program if they could use their food stamps to purchase prepared meals. We propose to extend the existing provision that allows homeless participants to use their food stamps to purchase prepared meals at authorized shelters and soup kitchens. This provision expires September 30, 1990. We also propose to allow the homeless to use food stamps to purchase meals at restaurants that offer reduced prices. The same opportunity is now given only to the elderly and disabled.

We continue to support the emergency food network by purchasing and distributing commodities for soup kitchens and food banks that serve the homeless.

6. Expanded Demonstration Waiver Authority for the Food Stamp Program

Issue:

More can be done to encourage innovative demonstration programs to help reduce dependency on government assistance and improve program administration while meeting the needs of low-income families.

Background:

The current system of government assistance for the poor is often seen as complicated, cumbersome, and inefficient. Many recognize the need to encourage new and innovative approaches that better respond to the needs of low-income Americans.

The Food Stamp Act of 1977 authorizes pilot or demonstration projects to test program changes that might improve the Food Stamp Program. The authority to waive statutory or regulatory provisions, however, is constrained in ways that may have discouraged some innovations.

The Administration is committed to improving the effectiveness of the Food Stamp Program to ensure that those with need receive assistance. Broader waiver authority can encourage innovations that ultimately benefit all participants.

An example of an area in which broader demonstration waiver authority would be helpful is AFDC/Food Stamp coordination. Differences in Food Stamp and AFDC rules sometimes place undue burdens on low-income Americans entitled to assistance and on the local workers processing their applications. Opportunities to experiment – with the goal of improving accessibility, streamlining operations, and reducing confusion – are limited by the current restrictions on food stamp waiver authority.

Recommendation:

Broaden the existing demonstration waiver authority to permit greater experimentation.

7. Food Stamp Administration: Citizenship Status Declaration

Issue:

Adult food stamp household members are required to attest in writing to their own and to their children's citizenship status.

Background:

Current law requires a written declaration by each adult - for themselves and for each of their children - stating whether or not they are citizens of the United States. The requirement that each adult household member sign the application can occasionally hamper the application process. Current AFDC policy has these requirements, except that an adult household member can sign a general statement encompassing all minor children in the household rather than attesting for each one individually.

Removing the requirement that all applicants attest to their citizenship by signing the application form will simplify the process for both applicants and caseworkers, improve administration, make the program more consistent with AFDC, and return the responsibility for ensuring that the household meets citizenship requirements to the household head.

Recommendation:

Modify the requirements at application so that the head of a household can attest to the citizenship status of all households members.

8. Authorization for Appropriations for the Food Stamp Program

Issue:

The Food Stamp Act of 1977 provides annual funding authorization for food stamp benefits and requires the Secretary to reduce benefits if needed to keep program costs within the amount authorized. Because of these provisions, there is always a threat that the flow of benefits to recipients may be interrupted. Funding for the employment and training program needs to be reauthorized.

Background:

Prior to 1977, the Food Stamp Program had an open-ended authorization for appropriations. The 1977 Act changed to an annual, fixed authorization level and added provisions requiring a suspension or reduction in benefits to stay within that limit, as well as procedural requirements for the implementation of such reductions. A more flexible authorization could eliminate the need for unnecessary procedural steps and streamline the supplemental appropriations process in the event of higher program costs due to unanticipated changes in legislation, participation, or food price inflation.

While program costs have exceeded initial appropriations on several occasions since Congress enacted these provisions, they have never resulted in a benefit reduction. In each instance, Congress has appropriated additional money to fully fund program benefits. The Congress has made clear in these actions that it does not intend to reduce benefits. Therefore, the procedural steps leading up to potential reductions because of insufficient initial appropriations is an unnecessary burden on Federal and State program managers as well as an unnecessary threat to the program recipients dependent on the Food Stamp Program for food assistance.

Recommendation:

To avoid disruption in benefits, authorize such sums as may be necessary to fully fund the Food Stamp Program. In addition, funding would be authorized on a calendar year basis.

Continue to fully fund the basic Employment and Training grant at \$75 million. Cap the Employment and Training 50-50 operational costs at \$12.50 per person per month.

VI. Farm Credit

VI. Farm Credit in Brief

Administration proposals in the farm credit area are intended to provide for better targeting of Farmers Home Administration (FmHA) farm operating and farm ownership loans, and to curb certain program abuses regarding the restructuring provisions of the Agricultural Credit Act of 1987. The proposals will permit FmHA to return to its traditional role as a supervised lender.

Under the proposals, eligibility for direct FmHA operating loans would be limited to seven years. Borrowers would remain eligible for up to 10 years when receiving assistance through a combination of direct and guaranteed loans. Any loan restructuring would have to be done within this 10 year period, and the length of restructured loans would be limited to seven years, effectively limiting the number of years borrowers could remain with FmHA to 17 years.

Further, a 20 percent equity requirement would be established for guaranteed loans and the guarantee on farm ownership loans would be limited to 15 years.

The Administration is also proposing that FmHA guaranteed loans, including operating loans, be eligible for participation in the Farmer Mac secondary market that is being established under the Farm Credit System. This proposal will avoid having FmHA establish a separate market, and should be a substantial encouragement to private lenders to work with FmHA in making guaranteed loans.

Direct farm ownership loans would be limited to socially disadvantaged applicants, as defined under the Small Business Act. Maximum indebtedness on direct farm operating loans would be reduced from \$200,000 to \$100,000. Other proposals would require experience in order to qualify for direct loans, prohibit use of direct loans to refinance existing debt, impose a needs test for limited resource loans, provide for the use of forms and standards consistent with the private sector, and terminate the continuation loan policy.

Proposals to curb abuses under the Agricultural Credit Act of 1987 include limiting debt write-downs to a one-time event and restricting eligibility for such write-downs to loans made prior to the Act of 1987, broadening the recapture provision on loan buy-outs so that they are consistent with the provisions that already apply to debt write-downs, providing for the denial of buy-outs where the borrower has not acted

in good faith, imposing a \$250,000 limit on write-downs and write-offs, providing that all assets can be considered in the calculation of write-downs and write-offs, allowing FmHA sales of inventory property at market rather than capitalization value, and extending the time periods for FmHA borrowers to respond between steps in the loan structuring process.

1. Direct Farm Operating Loans

Issue:

Target direct farm operating loans to existing borrowers and beginning farmers and limit time eligibility of borrowers.

Background:

Direct operating loans first reached the billion-dollar level in fiscal year 1982, and peaked at \$4.7 billion in fiscal year 1985. There has been a sharp reduction in the years since, with \$900 million available in fiscal year 1988 and \$932.5 million in fiscal year 1989 (the increase resulting from a supplemental appropriations item of \$32.5 million). Actual obligations were \$899 million or 99.9 percent of amounts available in fiscal year 1988, and \$856 million, or 91.8 percent of the increased amount available in fiscal year 1989. The 1990 Appropriation Act provides \$900 million; \$32.5 million in carry-over funds also is available. The President's budget for fiscal year 1991 includes \$500 million.

Availability of guaranteed operating loans has increased from a negligible level in the early 1980s to \$2.15 billion and \$2.6 billion in fiscal year 1988 and 1989, respectively, with obligations of \$891 million and \$879 million.

The reduction in direct loans and shift to guaranteed loans was endorsed by Congress in the Food Security Act of 1985. In addition, Congress enacted a continuation policy as part of the Supplemental Appropriations Act for 1987 which requires the Agency to make annual production loans to borrowers who are delinquent on other loans and who can demonstrate an ability to cash flow on only that new loan. A similar program was initiated administratively during the early 1980s at a time when it appeared that the economic distress affecting borrowers might be of shorter duration than proved to be the case. FmHA discontinued the policy in late 1985 in the face of mounting delinquent debt and declining value of borrower security. There were 238 such loans representing obligations of \$8.8 million outstanding at the end of fiscal year 1989.

Recommendation:

Restrict direct operating loans to existing borrowers and to beginning farmers who would become operators for the first time.

- a. Limit maximum operating loan indebtedness to FmHA to \$100,000 at any one time. The current limit is \$200,000.

- b. Require education or work experience, including at least one year of farm work, during three of the preceding five years before direct operating loans are approved.
- c. Prohibit refinancing of existing debt.
- d. Limit eligibility for direct farm operating loans to a total of seven years. A borrower could still receive a seven-year equipment loan as late as the seventh year of eligibility and thus remain with FmHA for a total of 14 years.
- e. Impose a 10-year maximum on the period during which an applicant could obtain any combination of new direct and guaranteed annual production loans and a one-time restructuring of up to seven years permitted within the 10-year period of eligibility. This would effectively cap at 17 the number of years a farmer would be with FmHA. To illustrate, a borrower receiving seven annual direct operating loans followed by three annual guaranteed operating loans would remain with FmHA for the maximum 17 years by obtaining a seven-year restructuring of his guaranteed debt in year 10.
- f. Use underwriting forms, standards, practices and terminology consistent with the private sector to the maximum extent possible.
- g. Discontinue continuation loans.

2. Guaranteed Farm Operating Loans

Issue:

Future role of guaranteed operating loans.

Background:

While the authority for guaranteed farm operating loans has increased dramatically, obligations have fallen far short of authorized amounts - 41.4 percent in fiscal year 1988 and 33.8 percent for fiscal year 1989. Many states, including some with impressive obligations of guaranteed farm ownership loans, obligate only a fraction of their guaranteed operating loan authority.

This has led to pressure from Members of Congress, including some sympathetic to the objective of the direct-to-guaranteed policy shift, to press for an increase in direct operating funds out of concern for credit availability in their states. Clearly, full acceptance of guarantees remains a problem with lenders, borrowers, and — to some extent — personnel of the Farmers Home Administration. Additional incentives may be necessary, going beyond the interest rate buy-down program initiated under the Food Security Act of 1985, if guarantees are to replace a larger portion of direct lending.

The President's budget for fiscal year 1991 provides for \$2.6 billion in guaranteed farm operating loans; \$350 million of this amount would be subsidized an average of 3 percent in interest.

Recommendation:

Modify the guaranteed farm operating loan program: 1) to facilitate the transition of existing direct loan borrowers to guaranteed loans and ultimately to private sector credit; and, 2) to provide a source of assistance to current borrowers of private lending institutions who can no longer continue with those lenders on commercial terms. Specifically:

- a. Require that no borrower may receive such guaranteed loans for more than seven years.
- b. Impose a 10-year maximum on the period during which an applicant could obtain any combination of new direct and guaranteed annual production loans and a one-time restructuring of up to seven years permitted within the 10-year period of eligibility. This would effectively cap at 17 the number of years a farmer would be with FmHA. To illustrate, a borrower receiving seven annual direct

operating loans followed by three annual guaranteed operating loans could remain with FmHA for the maximum 17 years by obtaining a seven-year restructuring of his guaranteed debt in year 10.

- c. Require the borrower to have 20 percent equity in the operation, except when refinancing from direct loans.

3. Direct Farm Ownership Loans (FO)

Issue:

Redirect the direct farm ownership lending program to socially disadvantaged applicants as described in the Agricultural Credit Act of 1987.

Background:

The Congress has been scaling down funding for direct farm ownership loans in recent years, particularly as a result of the general shift from direct to guaranteed loans initiated by the Administration and given impetus under the Food Security Act of 1985. From a peak of nearly \$1 billion in 1980, direct FO obligations have, with minor year-to-year variations, trended downward to a level of \$115 million in fiscal year 1988 and \$95 million in fiscal year 1989. The level provided in the appropriation bill for fiscal year 1990 is \$80 million. The President's budget for fiscal year 1991 provides for a program level of \$38.5 million.

The Agricultural Credit Act of 1987 gave special emphasis to members of socially disadvantaged groups by establishing FmHA's Target Participation Program designed to assure such applicants a share of farm ownership loan funds and an opportunity to purchase farmland in the Agency's inventory. The Act provides that "socially disadvantaged" be defined consistently with section 8(a)(5) of the Small Business Act (generally, racial and ethnic minorities).

Recommendation:

Limit new direct farm ownership loans to socially disadvantaged applicants. Impose a loan limit of \$150,000 per borrower. Use underwriting forms, standards, practices and terminology consistent with the private sector to the maximum extent possible.

4. Guaranteed Farm Ownership Loans

Issue:

How to allocate guaranteed farm ownership loans.

Background:

The guaranteed farm ownership program went from a negligible level in fiscal year 1983 to \$361 million in fiscal year 1988 and \$299 million in fiscal year 1989. The fiscal year 1990 appropriation is \$475 million. The President's budget for fiscal year 1991 provides for a program level of \$150 million, \$50 million of which would be subsidized at an average of 3 percent in interest. It is therefore appropriate to target beginning farmers and those who wish to expand family farms.

Recommendation:

Provide guaranteed farm ownership loans to:

- a. Those who would become owners for the first time, with the following provisions:
 - (1) Limit the FmHA guarantee to 15 years. Loans may have a longer amortization schedule at the option of the lender.
 - (2) Require three years of actual farm experience, such as work on the family's farm, work as a farm employee, or experience as operator of a rented farm, within the most recent five years.
 - (3) Require a 20 percent down payment or 20 percent equity.
- b. Those who wish to expand family farms, with the following primary provisions:
 - (1) Require a 20 percent down payment or 20 percent equity, except when refinancing from direct loans.
 - (2) Require that the operation not exceed family size after expansion.
 - (3) Prohibit the use of loan proceeds for refinancing of existing debt, except when refinancing from direct loans.

5. Debt Write-Down

Issue:

How to limit loan restructuring with debt write-down.

Background:

Existing law imposes no limitation on the number of times a borrower can go through restructuring with write-down of debt. This raises the very real possibility that the same borrower can be restructured, again become delinquent, and go through the whole process again with continuing eligibility for debt write-down or net recovery buy-out. This could easily occur if the net recovery value of the security continued to decline, so that with each restructuring calculation, its net recovery value would be less than payments on the newly restructured debt.

The Agricultural Credit Act of 1987 was enacted as a response to the huge backlog of delinquency which Farmers Home was unable to deal with because of judicially imposed constraints and the precipitous drop in the value of farmland securing the delinquent debt. Improvements in the farm economy and the stabilization — and in some cases upturn — in farm real estate values obviate the need for a drastic measure such as write-down. The normal servicing options provided by FmHA for decades are sufficient protection once implementation of the Act has completed providing protection to borrowers affected by the extraordinary events of the 1980s. Elimination of these options would serve as an incentive to new borrowers for prudent borrowing and farm management.

Language limiting the write-down to one per borrower was contained in the original Senate-passed versions of the Agricultural Credit Act of 1987 but was dropped in conference.

Recommendations:

- a. Limit the number of times a borrower can writedown debt to one.
- b. Provisions of the Agricultural Credit Act of 1987 to restructure debt (write-down, net recovery buy-out, etc.) will not apply to loans closed after January 6, 1988.

6. Buy-Out

Issue:

How to better recapture net recovery buy-out losses.

Background:

Existing law limits recapture by FmHA under net recovery buy-out to the difference between net recovery value and market value of the property subject to the buy-out. The market value is determined at the time of the buy-out. Recapture is available only if the property is sold at a gain within two years of the buy-out. There is no recapture based on appreciation in value of the property over time, and no recapture whatever if the former borrower waits two years and a day before selling or sells within two years at net recovery value.

The stated intent of the Act was to keep farmers in operation, if at all possible, by writing down debt (as far as net recovery value if necessary) to structure an operation that will cash flow, provided the cost to the Government would not exceed losses through liquidation. Borrowers who receive restructuring with debt write-down must enter a shared appreciation agreement whereby Farmers Home recoups certain sums when the borrower sells the property, pays off his loan or discontinues farming. The percentage of appreciation recaptured varies with the number of years before shared appreciation is triggered.

While the farmer remaining in operation under the debt restructuring must share asset appreciation with FmHA for 10 years, the borrower who sells after buy-out may easily avoid any recapture at all. This represents an inducement for the former borrower to hold on to his property for two years and then sell out, or sell at recovery value within the two years under a collusive arrangement whereby he in fact realizes a gain not shared with the Government.

Recommendations:

Extend the recapture period to 10 years. Compute recapture on the difference between net recovery value and the market value of the property at the time of sale.

7. Good-Faith Dealing

Issue:

Resolving inconsistent requirements for good-faith dealings.

Background:

Net recovery buy-out is available to those borrowers who have been considered for loan restructuring (including debt write-down to net recovery value of collateral) and found ineligible. Unlike the case with loan restructuring/write-down, there is no requirement under net recovery buy-out that the borrower has dealt in good faith with the Secretary in meeting obligations in connection with the FmHA loans. FmHA has no authority under the law to deny net recovery buy-out on the basis of even the most blatant instance of bad faith.

The Office of Inspector General has urged FmHA to "seek such legislative remedies as necessary to explicitly preclude those who demonstrate a lack of good faith from participating in any of the Agricultural Credit Act's provisions." Under existing authority, the agency can deny the benefits of most servicing actions to borrowers who have not dealt in good faith, the principal exceptions being net recovery buy-out and preservation servicing which, in the case of buy-back of inventory property, can entail extension of further credit.

Continuing to provide program benefits to those who fail to deal in good faith makes a mockery of FmHA's requirements and invites further abuses.

Roughly 400 cases a year of illegal disposition of property pledged to FmHA have been accepted for investigation by the Office of Inspector General. Many more cases are rejected or not even reported by FmHA field staff because of the difficulty in justifying an investigation, much less prosecution. In addition to conversion of security, other bad faith problems include falsification of documents and failure to comply with written agreements with the agency.

Recommendations:

Impose a good-faith requirement as a condition of eligibility for net recovery buy-out and preservation servicing. Impose a requirement that the value of all assets listed on security agreements be included even if they have been disposed of by the borrower without FmHA consent.

8. Debt Forgiveness Limitations

Issue:

Should there be a maximum amount of debt which can be forgiven?

Background:

FmHA is writing off huge amounts of debt under the Agricultural Credit Act of 1987. Almost 100 borrowers have received a write-down or write-off of \$1 million or more in 1989, one exceeding \$5 million.

Huge write-offs tend to discredit FmHA and serve as a disincentive for borrowers to meet their obligations to FmHA.

Recommendation:

Impose a \$250,000 dollar limitation on the amount of write-down or write-off given a single borrower.

9. Assets

Issue:

How should borrowers' assets that have not been used to secure FmHA loans be taken into account in write-down or net recovery buy-out?

Background:

Under existing law, FmHA must consider only property securing the agency's loans in calculating amounts to be written down or written off. It must ignore other assets such as other farm or nonfarm real estate, CDs, and bonds. Such assets can be taken into account when FmHA settles debt, but not in write-off or write-down. The result is that large amounts of debt are being forgiven under the Agricultural Credit Act of 1987 even though the borrower is fully capable of repaying by disposing of other assets. Borrowers with the largest write-offs are those most likely to have substantial amounts of other assets.

Awareness in a local community that a borrower has managed to preserve other assets while obtaining generous write-down or write-off of debt stirs resentments and discredits the agency and the program.

Recommendation:

Include all assets of a borrower in performing calculations for restructuring with write-down or net recovery buy-out.

10. Inventory Property

Issue:

How should inventory property be valued for sale to purchasers exercising buy-back rights? Should the county committee use random selection for multiple qualified borrowers?

Background:

Current law requires that inventory property be sold "at a price that reflects the average annual income that may be reasonably anticipated to be generated from farming such land." The same law also requires that land be offered "at a price not greater than that which reflects the appraised market value of such land." Because of this language, FmHA offers inventory property at capitalization value to purchasers exercising buy-back rights under the Act. Ordinarily, this should not be a problem when dealing with farmland because capitalization value should be consistent with market value as determined by comparable sales. However, sharp disparities arise when the property could be used for more intensive, non-agricultural purposes. Capitalization value, which is restricted to agricultural use, thus may well fail to reflect true market value, costing dollars to the government.

The other problem with the law stems from the requirement that the county committee, in disposing of inventory property, select from among qualified applicants the one who has the greatest need for farm income and best meets the criteria for eligibility to receive loans. This puts a great burden on the county committee, requires difficult and subjective judgments, generates multiple appeals by disappointed would-be purchasers and delays sale of such property.

Recommendations:

Change "capitalization value" to "appraised market value" where needed. Allow the county committee to use random selection for cases of identical bids by multiple qualified bidders.

11. Time Extensions

Issue:

Whether the time limitations for debt restructuring are adequate.

Background:

Experience with administration of the Agricultural Credit Act of 1987 borrower rights provisions has demonstrated that the amount of time provided is unrealistically short in the case of borrowers who are given 45 days in which to prepare their requests for restructuring or to arrange for financing under net recovery buy-out. The 60 days now provided for FmHA to process a request for restructuring is similarly deficient, in that there is often insufficient time for the borrower to close out his production year and provide current crop-yield and sale-price data on which to base a realistic evaluation of the borrower's operation.

Recommendations:

Extend the time for a borrower to develop a restructuring request from 45 to 60 days. Extend the time for a borrower to arrange financing for net recovery buy-out from 45 to 90 days. Extend the time for FmHA to process restructuring requests from 60 to 90 days.

12. Secondary Market for Guaranteed Farmer Program Loans

Issue:

How to establish a secondary market for guaranteed Farmer Program Loans.

Background:

PL 100-233 required the Secretary to “develop such procedures as are necessary for the facilitation, administration, and promotion of secondary market operations...” for guaranteed portions of FmHA Farmer Program loans. There would be benefits to farm borrowers if the FmHA secondary market were incorporated into the Farmer Mac structure. These benefits include:

- a. more competitive interest rates for farmers as a result of lower development costs of the secondary market, greater efficiency due to higher volume and elimination of duplication, and better investor acceptance;
- b. earlier implementation of the secondary market;
- c. greater interest in guaranteed FmHA Farmer Program loans as a result of increased lender awareness; and
- d. elimination of the concern that FmHA secondary market activities should be scored on budget.

Recommendation:

Amend the Farm Credit Act to allow Farmer Mac to pool FmHA loan guarantees, including operating loans, and to waive Farmer Mac underwriting standards for FmHA pools.

VII. Science and Education

VII. Science and Education in Brief

The Administration recognizes the importance of agricultural research and extension programs. The President's 1991 Budget proposes a National Initiative for Research on Agriculture, Food and Environment.

To allow for expansion of the National Initiative, the current limitation of \$70 million per year for competitive grants would be lifted to provide for increases in the annual funding level. The program would address concerns that the current competitive grants program funds only 25 percent of proposals and provides lower grant amounts for shorter time periods than other Federal research programs.

As well, the National Initiative would permit addressing the needs of institutions with less well developed research capabilities to strengthen their ability to conduct advanced research and train the scientific talent which will be required in the agricultural sciences.

Scientists recognize the significant opportunities available to solve agricultural problems ranging from animal diseases to environmental issues through the application of advanced biotechnologies. USDA has begun national-scale genome mapping programs for crop plants and livestock species. The program will identify and locate economically important genes on chromosomes to allow scientists to more rapidly impart those characteristics in important plants and animals.

Environmental and health issues are emerging as some of the highest priority issues which must be addressed by agricultural producers and consumers. USDA provides leadership for research in national interest areas, including food safety, water quality, global change and environment and natural resources education. Sustainable agriculture practices are recognized as a means to address certain environmental concerns and the Administration will seek to more effectively integrate them into the land-grant system.

1. National Research Initiative

Issue:

The need for a National Research Initiative for Research on Agriculture, Food and Environment

Background:

Agriculture and forestry have historically faced challenges from uncertainties of pests, diseases, weather and changing consumer desires. Recent years have seen the list expand to include complex food safety and environmental concerns. New solutions are needed for long-standing problems and the emerging concerns of global change, environmental degradation and food safety need to be addressed. A 1989 report of the National Academy of Sciences recognized the opportunities available to researchers through advanced biological sciences to solve increasingly complex agricultural and forestry problems.

In its FY 1991 Budget request, USDA proposes \$100.0 million to fund the first year of a major initiative to apply advanced technologies to the solution of complex, vexing problems facing farmers, ranchers and consumers of agricultural and forestry products. The initiative builds upon the strengths of the Federal-State partnership for agricultural research and the 1991 budget reflects the importance of continuing and strengthening priority ongoing programs at Federal labs and the universities. Ongoing competitive grant programs would be incorporated into the initiative. A sound investment strategy for research is fundamental in order to sustain economic performance, respond competitively to the increased economic strengths and manufacturing capacities of other nations, and maintain the quality of life in the U.S. To the extent that funds are awarded competitively and not earmarked for special interest purposes, the Administration proposes that funding for this initiative be increased by \$50 million annually through the outyears.

Recommendations:

In order to carry out the National Initiative for Research in Agriculture, Food and Environment, language is proposed for incorporation in the 1990 Farm Bill to raise the funding cap on the competitive grants program by amending section 2(b) of P. L. 89-106.

2. Sustainable Agriculture

Issue:

The need for research and education in sustainable agriculture

Background:

The sustainability of agriculture has become a major common concern of farmers, environmentalists, consumers and citizens. A sustainable agriculture generally means an agriculture that, for the foreseeable future, will be productive, competitive and profitable, conserve natural resources, protect the environment, and enhance the public health and safety.

Conventional agriculture has brought impressive gains in production through highly specialized, intensive farming. Those gains have sometimes come at the cost of unforeseen adverse effects.

Farmers need reliable facts and information about new and prospective farming practices that could conserve resources, protect the environment, and enhance health and safety. Meeting farmers' needs for implementing sustainable agriculture requires increased emphasis by USDA and Land-Grant research and extension systems. The Department's Low-Input Sustainable Agriculture (LISA) research and education program, now in its third year, is helping to demonstrate the new opportunities. LISA program funding is currently \$4.4 million (FY 1990).

Recommendation:

The Secretary should take a proactive role on research, extension and education on sustainable agriculture.

3. Environment and Health

Issue:

Growing concerns about environment and health

Background:

Concerns about the state of the environment and health issues are very much on the minds of the American people. The issue of global change which may portend worldwide changes in temperature, rainfall, and air quality is receiving prominent attention nationally and internationally and could be of great significance to agriculture. A government-wide cross cutting program on global change is underway. Water quality was identified as a Presidential Initiative in President Bush's 1990 Budget with a prominent role for agriculture. Food safety is a rising national concern as people are becoming more aware of the quality of the food they eat. A meaningful response to these and related issues will require a vigorous research effort. Educational activities to enlist the cooperation and participation of the public on environmental and natural resources management issues will also be needed.

Environment and Health: Water Quality

Background:

In his message "Building a Better America" to the Joint Houses of Congress on February 9, 1989, President Bush announced an initiative on enhancing water quality with emphasis on agricultural chemicals in groundwater. The President proposed that about \$290 million be allocated to support the initiative and that agencies of USDA, U.S. Departments of Commerce and Interior, and the U.S. Environmental Protection Agency be responsible for implementation of the initiative.

Implementation of the President's initiative will greatly accelerate on-going development of alternative farm management systems. In the meantime, a major USDA planning effort is nearing conclusion for implementation of the President's initiative on groundwater quality. It includes three main thrusts - research and development, education and technical assistance, and database support.

Research and Development - All thrusts are multi-agency in scope. USDA/S&E agencies, Agricultural Research Service (ARS) and Cooperative State Research Service/State Agricultural Experiment Stations (CSRS/SAES), are developing a comprehensive implementation strategy for the USDA Research Plan for Water Quality.

This plan, published in February 1989, sets forth two goals and six objectives that will provide (1) an understanding of how current agricultural practices contribute to groundwater contamination and (2) alternatives to current management systems that reduce groundwater pollution by agriculture.

Another USDA/S&E agency, the National Agricultural Library (NAL), will establish a Water Quality Information Center to serve the information needs of scientists, educators, and the public. Forest Service is developing plans for research in the context of mixed cropped and woodland areas. Extension Service (ES) and Soil Conservation Service (SCS) will contribute to development and technical evaluation of new systems. Economic Research Service (ERS) and SAES will conduct socio-economic studies of new systems.

The USDA research program has been closely coordinated with research efforts by the U.S. Geological Survey and the Environmental Protection Agency. Current research in ARS, CSRS and SAES is directed toward understanding fundamental physical/chemical/biological mechanisms and interactions regarding the occurrence, fate, and transport of agricultural chemicals in soils. Some of this knowledge has already been used to change management practices in limited regions to reduce chemical leaching to groundwater.

Education and Technical Assistance - ES and SCS are developing implementation plans for far-reaching programs intended to encourage farmers and ranchers to adopt improved management practices based on current technology to reduce the over-use of nitrogen fertilizers, and the prophylactic use of pesticides. Other programs will demonstrate the use of newly developed practices and production systems that may further reduce the use of agrichemicals while maintaining profitable levels of production and greatly reducing or eliminating the potential movement of agrichemicals into water resources.

Database Support - The database program is headed by ERS in cooperation with National Agricultural Statistics Service. The key element of this program is the establishment of an agricultural chemicals database that can be used in measuring the impacts of R&D, education and technical assistance programs to encourage the adaptation of practices that protect the ground water.

Environment and Health: Food Safety

Background:

Domestic and foreign consumers are increasingly concerned about the safety and quality of food products. Highly efficient and specialized modern agricultural production methods frequently involve the use of chemical pesticides and drugs to produce high quality food products at relatively low costs to consumers. There are concerns that certain of these chemicals and drugs used in the production of agricultural products may be harmful and have the potential to cause environmental damage. Concern is also expressed that certain large-scale confinement livestock production systems offer the opportunity for microbial contamination of animal products that can eventually result in food safety concerns for the consumer.

Agricultural producers are aware of growing consumer interest in food safety and are concerned that the techniques used in modern food production will be subject to restrictions and regulations that will hamper their ability to produce efficiently and remain competitive in world markets. Additional research is required to develop means to address these food safety concerns at the production and processing levels. Ongoing research programs, strengthened in the proposed 1991 Budget, are aimed at understanding means to reduce microbial and pesticide contamination at the farm level. Education programs are required to transfer the results of this research to producers to assure rapid adoption of improved production methods. A strong scientific basis is also required to provide regulators with the means to rapidly identify residues and microbial contamination quickly and at low cost.

The elderly, the very young, and those with impaired immune systems have special food safety needs. To meet these expectations and needs USDA must have an increased, and also very visible, emphasis on food safety research and education. Sound information, based on scientific efforts, will help to assure consumers that regulatory activities are carried out in a rational manner.

Environment and Health: Global Change

Background:

The Earth is, and has always been, a changing place. In recent years, human activities, including agriculture and forestry, have been adding to the atmosphere, the soil, the rivers and oceans, materials which may be affecting the Earth system. A strong research effort is necessary to understand how agriculture and forestry affect the earth system and how potential changes may affect agriculture and forestry.

Global change research needs are identified in a government-wide crosscut analysis document submitted with the FY 1991 Budget prepared by the Committee on Earth Sciences under the auspices of the President's Science Advisor. Agriculture has taken a strong position of responsibility in this rapidly developing arena.

Environment and Health: Environment and Natural Resources Education

Background:

The Department performs not only the research called for to support environmental programs and laws, but also the educational activities needed to enlist the cooperation and participation of the public in protecting and conserving natural resources.

For example, the Department is currently carrying out educational activities in connection with the Resources Planning Act, the Resources Conservation and Recovery Act, the Clean Water Act, the Rare and Endangered Species Act, and the various conservation provisions of the 1985 Food Security Act. However, USDA believes it is necessary to clarify the Extension Service's role in education of the public on the provisions of environmental legislation. The need is clearly implied in the various Acts, but there is no explicit language giving the Department the executing role.

Recommendation:

The Secretary should take an active role in research and education related to water quality, food safety, global change and environment and natural resources.

4. Industrial Uses of Agricultural Materials and Their Commercialization

Issue:

The need for finding industrial uses for agricultural materials and encouraging their commercialization

Background:

The development of industrial uses of agricultural materials is envisioned as a way to open new markets for U.S. agriculture and thereby strengthen demand. This has potential not only to boost farm income but also to reduce import needs for petroleum and other industrial materials. Opportunities exist for more efficient production and use of biomass for industrial applications. In many cases, potential products have been identified through research at Federal laboratories or Land Grant Universities, and additional developmental research is required in order to bring these products to the marketplace.

Biodegradable plastic and liquid fuels are examples of products made from starch. Printing inks, fuels, lubricants, and plastics are examples of products using oilseed crops. Newsprint from kenaf exemplifies a natural fiber product. These types of products made from crops can contribute to creating new or expanded agro-industries, offer new opportunities to diversify agriculture, and enhance the agricultural sector's role as a reliable supplier of raw materials to industry.

Recommendation:

Encourage research and development of industrial uses of agricultural materials.

5. International Science, Education and Development

Issue:

The importance of international science, education and development work to the prosperity of U.S. agriculture

Background:

In recent years, agriculture has taken on new importance worldwide as the means to revitalize and “expand” the economies of many countries. Research and education in the agricultural sciences have had a high priority in these countries and, as a result, there has emerged a global network of agricultural scientists who are developing new technologies to meet production demands under a wide variety of conditions. In the U.S., the national community of agricultural expertise resides for the most part in our agricultural universities and in the Department of Agriculture. The prosperity of U.S. agriculture and its ability to compete in world markets depends on how well we participate in this expanding global network that now dwarfs the U.S. agricultural research and education systems.

U.S. participation in this global network is important for two reasons: 1) the skills and talents of U.S. agricultural scientists can help speed the process of development in many countries of the world, and 2) the information and knowledge to be gained by these same scientists can be of inestimable value to U.S. agriculture.

In the former case, it is understood that economic development of the developing countries is in the U.S. national interest. It follows that promoting and facilitating the active involvement of the entire U.S. agricultural scientific, technical, and educational community with its counterparts worldwide will contribute to a more efficient and cost-effective development process.

Secondly, it has been demonstrated repeatedly that the benefits of international involvement to U.S. agriculture can be significant. In addition to a reverse transfer of technology that occasionally occurs, there are numerous examples of germplasm acquisition overseas that have contributed greatly to the vitality and economic strength of U.S. agriculture. There is little doubt in the minds of those familiar with these acquisitions of new germplasm—both plant and animal—that they represent an extremely important resource for the future growth and development of this country’s agriculture.

The globalization of agriculture and the worldwide integration of research, technology, and education, while being very important to the developing world, is clearly of equal importance to U.S. interests. Involvement of U.S. agricultural scientists will help assure the continued development of new products and processes so important to competing in world markets.

An additional benefit to the U.S. would be a strengthening of the partnership between USDA and the Land Grant Schools and State Universities. This partnership has served U.S. agriculture very well for over a century. Its successes must now be built upon and the partnership's work extended more aggressively into international research, technical cooperation, and education.

6. Germplasm Conservation and Genome Mapping

Issue:

Increasing the productivity of plants and animals through germplasm conservation and genome mapping

Background:

The USDA has been a leader in research to increase the productivity of plants and animals and to improve their nutritional quality. The need to collect and distribute the genetic resources necessary for this important work has long been recognized.

Legislation authorizing the USDA to establish cooperative State and Federal plant introduction stations in 1946, and the National Seed Storage Laboratory in 1956, led to the core of what is now the National Plant Germplasm System--genetic collections of useful economic crops, potentially useful new crops, and microbial stocks of use to agriculture and industry--in laboratories across the country. The ARS is the lead agency in coordinating this national systematic collection, preservation, evaluation, and distribution of plant materials by the many Federal, State and private sector organizations.

In addition, the ability to transfer desirable genes to agronomic crops is essential to maintaining and enhancing the productivity and profitability of American agriculture and forestry. As reflected in the President's 1991 Budget, the Administration is proposing a major plant genome mapping program to decipher the complete set of genetic instructions that guides the development of important food and forest plant species. Such a multi-year program is essential for the United States to maintain and strengthen its strong global position in agricultural efficiency and profitability.

The plant genome mapping program will promote stability and profitability of crop production, improved quality of food, and new crop plants and forest species. The program recognizes that agriculture is an industry based on growing plants for food, feed, fiber, and biomass. In addition, the program will foster and coordinate research leading to the ability to locate, characterize, and transfer genes which possess traits to control or influence yield, time of maturation, nutritional content, and resistance to disease, insects and drought, and to develop and improve crops.

The USDA effort will be coordinated with genome mapping activities of the National Institutes of Health, National Science Foundation,

Department of Energy, Forest Service and other Federal agencies, particularly as they relate to the human genome. The NIH and NSF human genome project activities will be generating new instruments and methods for analyzing DNA that should be beneficial to gene mapping of crops.

In addition, a joint USDA-State committee is developing a strategy for animal science programs to more fully address the need for genome mapping, collection, maintenance, preservation, and distribution of valuable stocks of domesticated animal genetic resources to scientists and producers worldwide.

Recommendation:

Implement program consistent with the President's FY 1991 Budget.

VIII. Marketing and Inspection Services

VIII. Marketing and Inspection Services in Brief

There are several priority areas in the marketing and inspection of agricultural products that need to be addressed in the 1990 Farm Bill.

Violations of Federal market orders are subject to civil penalties and fines except for those involving unpaid handler assessments. The Administration proposes to amend the Agricultural Marketing Agreement Act of 1937 to authorize such penalties and to place the proceeds in the General Fund of the Treasury.

Some activities carried out by the Animal and Plant Health Inspection Service render benefits to particular individuals or groups. In these cases, the user of the services should bear the financial cost of that action. The Administration proposes user fees to recover costs of passenger and cargo inspection activities at ports of entry, veterinary diagnostics provided to States and private entities at APHIS laboratories, and import/export quarantine activities including preclearance of commodities in foreign countries.

Currently, corn shipments are not required to be tested for aflatoxin in domestic or international markets. However, many merchandisers pay for voluntary inspections. The Administration's proposal would require all corn shipped from the United States to be officially tested for aflatoxin on a user fee basis.

1. Marketing Order Assessment Violations

Issue:

Section 8c(14) permits civil penalties and fines to be assessed for violations of a Federal order, except for violations involving unpaid handler assessments.

Background:

This amendment would give the Federal courts and the Department of Agriculture the authority to assess civil fines and penalties against handlers for non-payment of assessments. Since 50 percent of the marketing order violation cases involve failure to pay assessments, it is essential that authority in 8c(14) be extended to cover assessment violations. Moreover, effective compliance with such provision by handlers subject to marketing orders is integral to the continued success of these programs.

Recommendation:

The Department recommends amending the Agricultural Marketing Agreement Act of 1937 to authorize civil fines and penalties against handlers for non-payment of assessments.

2. User Fees

Issue:

Recovery of costs for certain Animal and Plant Health Inspection Service (APHIS) activities.

Background:

Some activities carried out by APHIS represent services rendered to a particular individual or group. Other activities are caused to be performed by a particular individual or group. In either case, the user or person causing the action to be performed should bear the financial burden of that action.

APHIS currently recovers approximately \$18 million in fees for its services, primarily overtime port-of-entry inspection, certain animal import quarantine activities, and pre-clearance of commodities in foreign countries.

APHIS has developed one proposal to assess user fees for all port-of-entry activities (passenger and cargo inspection), similar to fees charged by Customs and Immigration, and for veterinary diagnostic services provided to States and private entities at APHIS laboratories. The funds from the fees would be used to offset the costs of these programs. The legislation has been transmitted to Congress, but has not been introduced. In addition, APHIS is developing a fee proposal to recover the cost of other animal import and export activities that are not currently covered by the Agency's fee authority.

Recommendation:

Include the draft user fee legislation in the Farm Bill as part of an effort to reduce the overall cost of agricultural programs to taxpayers.

3. Aflatoxin Testing

Issue:

Whether to require aflatoxin testing on export corn.

Background:

Reports of aflatoxin in U.S.-grown corn have prompted increased public concern about mycotoxins in grain. In FY 1989, such concerns resulted in foreign buyers requiring the testing of almost 90 percent of the corn exported from the United States.

Aflatoxin testing is not required for domestic or foreign shipments of corn. Interested parties may request aflatoxin testing from the Department or from many private inspection laboratories. New technology also has made it possible for corn handlers to easily and safely perform their own aflatoxin tests. In addition, the Food and Drug Administration (FDA) is working closely with State and local health officials, and the Department in monitoring aflatoxin levels in corn products as part of its Food Safety Program.

Recommendation:

Require all corn that is exported from the United States to be officially tested for aflatoxin. Continue to provide aflatoxin testing service, upon request, for domestic corn shipments. Also, use the test data to monitor aflatoxin levels in domestic and export corn.

4. Dairy Marketing Orders

Issue:

Midwest dairy farmers have raised concerns about Federal milk order provisions including Class I differentials/multiple base points, reconstituted milk, and a national or very large Federal milk order.

Background:

Federal Order Class I Differentials/Multiple Base Points:

Some producers claim that the current Class I pricing structure encourages inefficient regional milk production, discouraging the least cost shipment of milk, and may be contributing to unneeded pooling of Grade A milk. This position was supported by a 1988 study of USDA's Economic Research Service and by a number of earlier studies. There were pronounced regional shifts in milk production and fluid use during the nearly 20 years that the Class I differentials remained unchanged. Changes in minimum Class I prices mandated by the 1985 Food Security Act lessened some distortions but aggravated others. The question is whether and how to implement adjustments in Class I differentials/multiple base points.

Federal Order Pricing of Reconstituted Milk:

Some producer groups claim that the "down-allocation" and "compensatory payment" provisions of milk orders are an economic barrier to the use of nonfat dry milk or concentrated milk in reconstituted fluid milk products. This position was supported recently by a 1988 study by USDA's Economic Research Service and by a 1988 General Accounting Office report on the order program. The question is whether the orders should be changed.

National or Very Large Federal Milk Orders:

Some producers believe that since their production area is relied on for supplemental milk supplies, they have an economic right to share in the higher-valued Class I sales in other areas of the country. A national order, or alternatively several large orders, is viewed as a means of accomplishing this. The question is whether there is a basis for such orders.

Recommendations:

The Secretary will address these issues through existing administrative rule making procedures.

IX. Miscellaneous Provisions

IX. Miscellaneous Provisions in Brief

A. Price and Income Supports

Under current law, producers may receive income support payments (deficiency payments) if their base acreage is devoted to a conserving use rather than being planted to the program crop. This is known as the "0/92" provision. The Administration proposes to retain this provision in order to foster soil and water conservation and provide producers flexibility.

Under current law, whenever loan rates on wheat or feed grains are reduced to enhance export competitiveness, any additional deficiency payments that may result from the lower market prices are determined based on the average market prices for the entire marketing year. The Administration proposes to determine these prices after the first five months of the marketing year rather than waiting until the end of the marketing year. The chief reason for the change is to reduce the administrative burden of making two payment determinations for each crop as is now necessary.

Currently, crop acreage bases (historical planting pattern for a particular crop) are determined based on a 5-year rolling average of plantings. The most recent of the five years used is the immediately preceding year. This is inequitable to winter wheat producers, who must plant again before their new base acreages have been computed. The Administration proposes that the base calculation be lagged one year so that the immediately previous crop year is not used.

B. Food and Consumer Services

The Commodity Supplemental Food Program (CSFP) would be reauthorized, including improved State administrative expense funding. The Food Distribution Program on Indian Reservations would be reauthorized so that Indian Tribal Organizations could still choose to operate the commodity program, rather than have tribal members participate in the Food Stamp Program. Social Security numbers would be collected from adult applicants and household members in both programs.

C. Farmers Home Administration

There are a number of miscellaneous changes that are proposed in FmHA's basic authority, the Consolidated Farm and Rural Development Act. These changes are intended to streamline the loan making and servicing processes, to remove certain inconsistencies in these processes and to eliminate unnecessary functions.

D. Marketing and Inspection Services

There are several miscellaneous concerns in the Marketing and Inspection Services area which should be addressed by the 1990 Farm Bill. The Administration is proposing a number of administrative and technical changes to improve the oversight of marketing orders and the operation of the animal and plant health inspection programs. The proposal includes authority to invest user fee fund balances in interest bearing accounts which can offset future fee increases. The Administration proposes to improve grain quality by prohibiting new elevators from recombining dust once it has been removed from the grain stream. Several other grain quality improvement efforts do not require additional legislation. Efforts to address them are already underway.

E. International Programs

The Food Security Act of 1985 mandates several export promotion activities which can be carried out under existing authorities or are duplicative of ongoing promotion activities. The Administration therefore proposes that several activities should not be extended in the 1990 Farm Bill. These are mandated export sales of CCC-owned dairy stocks, the Dairy Export Incentive Program (DEIP) and requirements for the barter of CCC-owned commodities. The CCC Charter Act already provides broad statutory authority for the CCC to carry out these export activities.

A. Price and Income Supports

1. 0-92

Issue:

Should 0-92 provisions be retained?

Background:

Under current law, wheat and feedgrain producers may receive deficiency payments if their base acreage is devoted to a conserving use rather than being planted to the program crop. This is commonly called the "0-92" provision. The 0-92 provision should apply under the Administration's planting flexibility proposal to producers who do not plant their permitted NCA crop acreage to NCA crops or conserving crops.

Recommendation:

The Administration proposes to retain this provision in order to foster soil and water conservation and provide producers with additional flexibility.

2. Deficiency Payments

Issue:

To reduce administrative costs, should final deficiency payments ("Findley payments") be paid on the basis of market prices after the first five months of the crop year?

Background:

Currently, any final deficiency payments ("Findley payments") are determined based on average market prices for the entire 12-month crop year. If final deficiency payment rates had been computed using the actual farm prices received during the first five months of the crop year and projected prices for the remaining seven months weighted by actual and projected sales, this procedure would have resulted in nearly identical payment rates. Basing final deficiency payments on this basis will reduce administrative costs.

Recommendation:

The Administration proposes to determine final deficiency payment rates after the first five months of the crop year.

3. Acreage Bases

Issue:

How should the crop acreage bases be calculated?

Background:

Currently, crop acreage bases (historical planting pattern for a particular crop) are determined using a moving average formula of planted and considered planted acreage over the previous five years. The most recent of the five years used is the immediately preceding year. This is inequitable to winter wheat producers who must plant again before their new base acres have been computed. Moving the formula back one year would allow USDA enough time to compute bases and notify all farmers well in advance of planting time.

Recommendation:

The Administration proposes that the base calculation be lagged one year so that the immediately preceding crop year is not used.

B. Food and Consumer Services

1. Commodity Supplemental Food Program (CSFP) Administrative Funding

Issue:

The current approach to administrative funding does not provide adequate or stable administrative support under conditions of limited dairy surpluses.

Background:

Currently, States receive base administrative funds (15 percent of the total appropriation) and reimbursement administrative funds (15 percent of the value of commodities distributed that are provided at no cost to the program). In fiscal years 1988 and 1989, administrative funds represented 20.6 percent of the appropriation.

Reimbursement of administrative funding, which was stable during recent periods of extensive dairy surpluses, is subject to the availability of donated commodities. However, unstable supplies present difficulty for program operators in planning their budgets early in the year.

Recommendation:

Funding of CSFP administration will equal but not exceed 20 percent of the appropriation. Additionally, reimbursement funding would be discontinued.

2. Commodity Supplemental Food Program (CSFP) Reauthorization

Issue:

Reauthorization of the Commodity Supplemental Food Program (CSFP) and administrative funding.

Background:

Instituted in 1968 through P.L. 90-463, the CSFP is now authorized by section 4(a) of the Agriculture and Consumer Protection Act of 1973.

In FY 1989 the CSFP provided supplemental foods to an average of 147,000 women, infants and children and 92,000 elderly per month. The program is operated by 20 State agencies, 11 of which provide services to the elderly. Six different food packages provide a variety of Federally purchased commodities to program participants.

Recommendation:

Reauthorize CSFP and administrative funding.

3. Commodity Supplemental Food Program (CSFP) Caseload Conversion

Issue:

Caseload conversion authority undermines the targeting of program benefits to the population at highest risk.

Background:

Under current law, if a State agency has been assigned more caseloads than it can use to serve women, infants and children, it can convert excess caseloads to serve the elderly with the Secretary's approval. Caseload conversion authority was established before the Department implemented an order of funding that directly assigns caseloads for the elderly. Caseload conversion authority is now sometimes used to bypass the order of funding designed to ensure that women, infants and children have first access to program resources. The result has been a steady increase in the portion of caseload slots used for the elderly, from 29 percent in 1987, to 39 percent in 1989.

Amending caseload conversion authority would reinforce the program focus of CSFP on women, infants and children by allowing USDA to

reallocate unused caseload slots for women, infants and children caseload slots from States unable to use them to States able to serve this critical target group. Increases in the elderly caseload would occur through reallocation at the Federal level if sites had no women, infants and children who could be served. The current elderly caseload in CSFP will be protected.

Recommendation:

Amend caseload conversion authority.

4. Reauthorization of Food Distribution Program on Indian Reservations (FDPIR) and Food Donations to Selected Groups

Issue:

Reauthorization of the Food Distribution Program on Indian Reservations (FDPIR) and food donation to selected groups.

Background:

The FDPIR provides USDA food to help meet the nutritional needs of low-income households on Indian Reservations, and Indian households near reservations. FDPIR provides an economic alternative to the Food Stamp Program in areas with poor access to retail stores.

Food donations to selected groups provide commodities to summer camps and for disaster relief. The importance of commodity programs for disaster relief was demonstrated by USDA's response to Hurricane Hugo in the Caribbean and South Carolina and the earthquake in California.

Recommendation:

Reauthorize programs.

5. Food Distribution Program - Advance Funding for State Option Contracts (SOCs)

Issue:

USDA lacks the authority to process donated commodities at State request and subsequently recover the cost of processing from States. Advance funding of State Option Contracts (SOCs) would permit USDA to provide more desirable commodities to States without reducing farm price support and stabilization activities.

Background:

Schools desire commodities in more highly processed forms to minimize labor costs. Providing more highly processed commodities reduces the level of agriculture support USDA can provide. Under a SOC, USDA purchases processed commodities (e.g. chicken nuggets) and the State agrees to pay the cost of processing the chicken into nugget form. States support the concept; however, many States cannot pay processing costs within seven days of receipt of the product, as currently required.

The proposed legislation would allow USDA to pay the processing cost initially and then recover these costs from States. This would give States a more reasonable payment period.

Recommendation:

Provide USDA with the legislative authority to pay processing costs in advance using Section 32, Commodity Credit Corporation, Child Nutrition Program, and Nutrition Program for the Elderly funds and ensure recovery of costs from States. If such recovery is not made within 150 days, offsets shall take place within 30 days.

6. Collect Social Security Numbers in FDPIR and CSFP

Issue:

This provision would require the collection of Social Security Numbers (SSN) in the Food Distribution Program on Indian Reservations (FDPIR) and in the Commodity Supplemental Food Program (CSFP) for all applicants and household members 18 years or older.

Background:

The collection of SSNs is already required in many Federal programs, including the Food Stamp Program, the National School Lunch Program, and the Aid to Families with Dependent Children Program. SSNs are needed to verify application information and to detect dual participation (FDPIR and FSP, CSFP and WIC). Provision of SSNs would enhance recordkeeping for both programs and may discourage applicants from submitting false or incomplete data.

Recommendation:

Amend authorizing legislation for both programs to require the collection of SSNs.

7. Temporary Emergency Food Assistance Program (TEFAP) Displacement Report

Issue:

Reduce paper work by repealing the requirement for the Food and Nutrition Service (FNS) to produce an annual report for Congress on the magnitude of displacement of commercial sales due to commodity donations through the Temporary Emergency Food Assistance Program (TEFAP).

Background:

FNS has been required for the past four years to report to Congress on the extent and magnitude of displacement of commercial sales due to commodity donations through TEFAP.

Distribution levels for butter were reduced twice in response to the displacement concerns of oilseed producers, margarine associations and Congress. Displacement analyses for the past three years have indicated that essentially each pound of butter donated through TEFAP reduces commercial margarine sales by one pound. As monthly butter donation levels have not changed since mid-1985, it is expected that the commercial margarine displacement rate will not change.

Cheese will no longer be available to TEFAP unless current dairy market conditions change dramatically. The displacement of commercial sales should not, therefore, continue to be a program concern.

USDA does not have sufficient information to estimate displacement effects due to the distribution of commodities purchased under the Hunger Prevention Act of 1988 from the commercial market.

Recommendation:

Since the underlying relationship between donated commodities and commercial sales to households will not change, we recommend repealing the requirement to produce an annual displacement report on the grounds that it no longer provides new or useful information. The Secretary would still be required to consider potential commercial market effects when setting distribution levels for commodities through TEFAP.

C. Farmers Home Administration

1. Interest on Interest

Issue:

Should FmHA be allowed to charge interest on interest payments that are less than 90 days overdue?

Background:

The prohibition against charging interest on interest which is less than 90 days overdue creates administrative problems when loans are reamortized. Currently, this interest must be dealt with separately when a new payment schedule is developed. Removal of this prohibition would permit FmHA to capitalize all unpaid interest into the principal balance when loans are reamortized. This would greatly simplify the transaction.

Recommendation:

Eliminate statutory prohibition against charging interest on interest payments that are less than 90 days overdue.

2. Certification of Loan Eligibility

Issue:

How to streamline the loan approval process?

Background:

Existing law requires that FmHA county committees certify the eligibility of a farmer program loan applicant each time an application is made. This requires a separate determination for subsequent loans, even though the applicant has been recently certified as eligible. This causes undue delay in the processing of loan applications, particularly during the busiest and most critical times of the year.

Recommendation:

Permit county committees to certify eligibility for farm operating loans for periods of two years.

3. Disaster Loans to Entity Applicants

Issue:

Eliminating inconsistencies in eligibility standards for disaster emergency (EM) loans.

Background:

Existing law makes corporations, partnerships, and similar entity applicants whose owner-operators are related by blood or marriage eligible for farm ownership and farm operating loans. It limits EM loans to only family-sized farming operations. This inconsistency means that certain entities cannot obtain an emergency loan, even though the members would be eligible for far greater amounts of loan funds if they applied as individuals.

Recommendation:

Extend eligibility for EM loans to entities whose members are related by blood or marriage, provided they meet other eligibility requirements.

4. Debt Settlement

Issue:

Should FmHA's debt settlement authority be consolidated?

Background:

The Consolidated Farm and Rural Development Act (CONACT), as amended by the Food Security Act of 1985, provides extensive debt settlement authority to FmHA. The 1985 amendments, however, removed the authority to act on debt settlements and release of liability arising from transactions under authority other than the CONACT. This category includes Economic Opportunity loans, Non-Program loans, Intermediary Relending Program loans, Nonprofit National Corporation loans, and claims against third party converters. The only authorities presently available to settle debt for these kinds of loans are the Federal Claims Collection Act and its implementing regulations, and general claims collection statutes. It would be more efficient from an administrative standpoint to consolidate such authority in the CONACT.

Recommendation:

Consolidate all FmHA debt settlement authority in the CONACT.

5. Limited Resource Interest Rates

Issue:

Should limited resource interest rates for direct FO and OL loans be consistent?

Background:

Under existing law, interest rates for limited resource borrowers are calculated differently for farm ownership (FO) and farm operating (OL) loans.

For FO loans, the regular (non-limited resource) interest rates may not exceed the current average market yield on outstanding U.S. marketable obligations of comparable maturities (25 years), plus 1 percent. The current Treasury rate for 25-year obligations is 8.125 percent. The FmHA rate is 8.75 percent. FO limited resource rates cannot be more than one-half of the current average market yield or less than 5 percent. The current FO limited resource rate is 5.0 percent.

For OL loans, the regular (non-limited resource) interest rates cannot exceed the current average market yields of comparable maturities (5-year), plus 1 percent. The current Treasury 5-year rate is the same as the 25-year rate of 8.125 percent. The FmHA rate is 8.5 percent. The OL limited resource rate cannot be more than the FmHA rate for regular OL loans, less 3 percent. Currently, the OL limited resource rate is 5.5 percent.

Recommendation:

Standardize limited resource interest rates for both farm ownership loans and farm operating loans, imposing a uniform rate of one-half the Treasury rate plus 1 percent, but not less than 5 percent. Under this formula, the current farm ownership loan and farm operating loan limited resource rate would be 5 percent.

6. Community and Business Program (C&BP) Application Process

Issue:

Should FmHA be allowed to hold C&PB applications until funds are available?

Background:

The 60-day limit for approval of loan applicants is having the unintended effect of forcing the disapproval of completed applications for loans and guarantees when there are not funds available to be obligated. When sufficient funds are not available, FmHA's only option is to decline the application. FmHA would prefer to hold an application that can be funded when funds become available rather than disapprove the application.

Recommendation:

Permit FmHA to accept and hold eligible applications until funds are made available.

7. Release of Liability for Community and Business Program (C&BP) Loans

Issue:

Whether FmHA county committees should certify release of liability for C&BP loans.

Background:

Current law requires county committee certification before approval of a release of liability for C&BP loans. The county committee is not involved in the making or servicing of C&BP loans except for these actions. The committee usually has no prior knowledge of the borrower and rarely denies these requests. The requirement does not appear to serve any useful purpose and impedes the processing of such releases.

Recommendation:

Eliminate county committee certification before approval of a release of liability for C&BP loans.

8. A-95 Review

Issue:

Should language referring to a cancelled OMB circular be removed from CONACT?

Background:

On July 14, 1982, the President signed Executive Order 12372,

"Intergovernmental Review of Federal Programs." The Order directed the revocation of OMB Circular A-95 and provided a new system of intergovernmental consultation. Under the Order, State and Federal Governments determine what Federal programs and activities to review and the procedures by which the review will take place. While the A-95 review process is no longer active, language referring to this process has not been eliminated from the CONACT.

Recommendation:

Eliminate language in CONACT referring to circular A-95.

9. Leaseback/Buyback of Non-Farm Collateral

Issue:

Reduce FmHA losses by limiting borrower's priority rights to regain possession of non-farm collateral under the leaseback/buyback program.

Background:

On rare occasions, FmHA is given a lien on non-farm property, usually as additional security for a farm program loan. Under current law, FmHA must offer to lease this non-farm property, as well as any farm property, back to a defaulting borrower under the leaseback/buyback program. The purpose of leaseback/buyback, which allows defaulting borrowers another chance to conduct a successful farming operation, does not require that the borrower be given a priority right to regain possession of non-farm property. The agency could reduce its losses by selling such collateral at the market price.

Recommendation:

Limit leaseback/buyback program to farm property only.

10. Disaster Loan Collateral Appraisals

Issue:

Whether the CONACT should require duplicate appraisals for disaster (EM) loans.

Background:

Farm assets depreciated in value very rapidly in the early 1980s. The CONACT was amended to require FmHA to use farm asset values from

a year prior to the date a disaster declaration designation was requested, unless present values were higher. This required FmHA to document EM loans as secured when, in fact, they were not. That situation has been reversed during the past 2-3 years, when asset values have increased. The current situation is such that present market values of farm assets, in virtually all parts of the country, are higher than they were a year earlier. Under these conditions, there is no need for the two appraisal approach.

Recommendation:

Eliminate prior year appraisal from the EM application process.

D. Marketing and Inspection Services

1. Federal Milk Orders and Status of Producer-Handlers

Issue:

Reenactment of Congress' declaration on the legal status of producer-handlers.

Background:

Section 104 of the Food and Agriculture Act of 1965 states that the legal status of producer-handlers under the Agricultural Marketing Agreement Act of 1937, as amended, shall be the same after adoption of the amendments as before. Congress wanted to make clear that a Class I base plan would not justify including producer-handlers in producer pools under Federal milk orders.

Congress has continued to reenact this declaration in each subsequent Farm Bill even though it has provided no legislative history since 1970 and the authority for Class I base plans expired in 1981.

Recommendation:

The Department recommends deletion of this language on producer-handlers.

2. Federal Milk Orders and Mandatory Timetable for Implementation of Marketwide Service Payments

Issue:

Repeal the requirement that implementation of a marketwide service payment program under a Federal milk order occur within 120 days of the close of the hearing.

Background:

The Food Security Improvements Act of 1986 added to the Agricultural Marketing Agreement Act of 1937, as amended, the requirement that a hearing (if appropriate) on a proposal for marketwide service payments begin not later than 90 days after the Department receives the proposal and that implementation of marketwide service payments, if authorized, occur not later than 120 days after the hearing.

In identical letters to the Speaker of the House of Representatives and the President of the Senate, sent in April 1989, Secretary Yeutter

recommended that Congress repeal the requirement that implementation of a marketwide service payment program occur within 120 days. This timeframe does not allow sufficient time for development of a hearing record, formulation of the necessary regulation, comment by interested parties, conduct of a referendum and implementation.

Recommendation:

The Department recommends elimination of this statutory time constraint.

3. Federal Milk Orders - Expiring Authorities for Seasonal Incentive Plans, Mandatory Amendment Hearing, and Revised Pricing Standards

Issue:

Extension of the expiring authority.

Background:

Section 201 of the Agricultural Act of 1970, added to the Agricultural Marketing Agreement Act of 1937, as amended, provided language to retain and separately state the existing authority for seasonal base plans, and to clarify and reaffirm the authority for takeout-payback plans.

The Agriculture and Consumer Protection Act of 1973 extended for four years the authority for seasonal incentive plans and amended Section 201 of the Agricultural Act of 1970 to require the Secretary to call a public hearing on proposed order amendments if requested by at least one-third of the producers in a market who petition individually in writing. It also requires the Secretary to set prices not only to insure adequate supplies of high quality milk to meet current needs but to assure a level of farm income which will maintain productive capacity sufficient to meet anticipated future needs.

The Food and Agriculture Act of 1977 extended Section 201 of the Agricultural Act of 1970, as amended, for an additional four years until December 31, 1981. The language for seasonal base plans, mandatory hearings, and additional price-setting criteria was reenacted by Section 101 of the Agriculture and Food Act of 1981, and the Food Security Act of 1985 extended Section 101 until December 31, 1990.

Recommendation:

The Department recommends extension of the authorities for seasonal base plans and takeout-payback plans.

4. Perishable Agricultural Commodities Act - Proposed Amendment for Investment of Trust Fund Balances

Issue:

The Perishable Agricultural Commodities Act program administered by USDA is a completely self-supporting program that is financed by license fees. The program currently generates annual revenue to USDA in the amount of \$5.5 million, which is maintained in a trust account.

This amendment would enable the Department of Agriculture - or, at the discretion of the Secretary of Agriculture, the Department of Treasury - to invest operating balances (which can amount to as much as \$5.5 million) in interest-bearing accounts. Any interest earned would be returned to the program and used to help offset future revenue requirements.

Background:

Similar investment authority currently exists for the voluntary inspection and grading of agricultural commodities.

Recommendation:

The Department recommends enactment of authority to invest trust fund reserves from license fees received by USDA under the Perishable Agricultural Commodities Act.

5. Tobacco Adjustment Act of 1983 - Investment of Trust Fund Reserves

Issue:

The proposed amendment would authorize the Secretary of Agriculture to invest trust fund reserves from the imported tobacco inspection account in insured or fully-collateralized interest-bearing accounts or, at the discretion of the Secretary, by the Secretary of Treasury in United States Government debt instruments. Fees, charges

and interest earned from the investment of such funds would be added to the applicable appropriation account and be available without fiscal year limitation. Interest earned would be used to help offset imported tobacco inspection fees.

Background:

Similar investment authority currently exists for the voluntary inspection and grading of agricultural commodities, including the inspection of domestic tobacco.

Recommendation:

The Department recommends enactment of authority to invest trust fund reserves from the imported tobacco inspection program.

6. User Fees for Reports, Publications, and Software - Investment of Trust Fund Balances

Issue:

The Secretary is currently authorized to furnish copies of Department publications, including computer software, to those who request them and to charge fees for such publications and software. The Agricultural Marketing Service (AMS) uses this authority to charge for printed market news reports.

Authority to invest trust fund balances from user fees for publications and software would enable agencies to offset costs of their publications and software to the extent that interest could be earned on such funds.

Background:

Similar investment authority currently exists for the voluntary inspection and grading of agricultural commodities.

Recommendation:

The Department recommends enactment of authority to invest trust fund balances from user fees for publications and software.

7. Consolidated Animal and Plant Health Protection Statutes

Issue:

The Animal and Plant Health Inspection Service (APHIS) currently operates under a myriad of statutes dating to 1884. Legislation is needed to consolidate, streamline and update authorities.

Background:

Since 1884, many individual laws have been passed to deal with both specific and general animal and plant health issues. Some of these authorities overlap, resulting in confusion over which laws to apply to different situations. In addition, new and emerging technologies will require the updating of existing authorities.

In 1983, the House Committee on Agriculture, Subcommittee on Department Operations, Research and Foreign Agriculture held an oversight hearing on APHIS and, recognizing this problem, directed the Agency to develop draft legislation. Two drafts were developed by the Agency and the Office of the General Counsel (OGC), one for plant quarantine laws and one for animal quarantine laws. Some statutes did not lend themselves to consolidation and were not included. These include the Animal Welfare Act, the Horse Protection Act and the Virus-Serum-Toxin Act (veterinary biologics). Last year, during another oversight hearing, the Subcommittee renewed its request for the legislation.

Recommendation:

Include the draft legislation in the Farm Bill. This legislation would eliminate existing problems, update authorities, and make our laws easier to understand for the people who have to apply them and those who have to comply with them.

8. Grain Quality Issues

(a) Residues. Commercial grain may contain chemical residues from various sources such as insecticides, herbicides, and fumigants. As part of the Department's wide range plans regarding food safety, randomly selected grain samples from the marketplace will be tested for various chemical residues. This data will help to identify whether any residue problems exist.

(b) Separating Broken Corn from Foreign Material in Corn. The Department is conducting a study to determine whether the quality standards for U.S. corn should be revised to measure the percentage of broken corn (BC) separately from the percentage of foreign material (FM). This effort includes cosponsoring a research project with the University of Illinois and Iowa State University that is designed to determine the operational and economic impact of establishing separate quality limits for BC and FM.

(c) Separating Broken Kernels from Foreign Material in Sorghum. A consensus report prepared by the Grain Quality Workshop, an industry technical working group, supported the separation of the factor "broken kernels, foreign material, and other grains" (BNFM) in sorghum into individual components and recommended limits for the individual factors "broken kernels" (BN) and "foreign material" (FM). The Department plans to propose in the Federal Register these and other changes to the sorghum standards.

(d) Combining Dockage and Foreign Material in Wheat. During 1989, the Department conducted a study on the effects of including dockage with foreign material as a grading factor for wheat. The study concluded that combining dockage and foreign material would not, in itself, serve as an incentive to market cleaner wheat. While the wheat industry supports efforts to market cleaner wheat, no consensus exists on how to achieve this goal nor whether the cost of achieving cleaner wheat would be offset by making U.S. wheat more competitive and helping to prevent U.S. market erosion.

(e) End-Use Testing. The Department is working toward providing more end-use related quality information as part of the inspection system. A 1987 survey of end-users revealed that the grain inspection system should be expanded to consider additional wholesomeness criteria such as pesticide residues and hidden insect infestation, and consider certain intrinsic attributes of grain such as alpha-amylase in wheat, the level of free fatty acid in soybeans, the green (chlorophyll) color in soybean oil, and the degree of oil oxidation or deterioration in soybean oil.

(f) Insect Infestation. On June 30, 1987, the Department revised the tolerances for insect infestation so that similar grains had the same insect tolerances. A limit on insect damaged kernels allowable in wheat was also established.

(g) Toxic Weed Seeds. Recent concerns about the effect of potentially toxic seeds in grain have caused the Department to reevaluate the present limits for such seeds and initiate research studies. At the completion of this research, the Department will evaluate the results and determine if the U.S. standards for grain should be changed to limit the presence of any of the seeds.

(h) Equipment - Standardization. The Office of Technology Assessment's (OTA) report, "Enhancing the Quality of U.S. Grain," suggested that the approval and oversight of official inspection equipment be transferred to the National Institute of Science and Technology (NIST). NIST does not oversee tests that are subjective in nature nor does NIST have a national program based on reference methods. Therefore, the Department is seeking other alternatives.

(i) Inspection - Mandatory/Permissive. The Office of Technology Assessment's (OTA) report, "Enhancing the Quality of U.S. Grain," suggested that mandatory official inspection on interstate grain shipments would ensure that consistent sampling and testing are performed. The Department does not support mandatory inspection on interstate grain shipments. Other, less restrictive, alternatives should be considered if greater standardization of inspection results is needed.

(j) Grain Dust Recirculation. The Department concluded, based on comments received during rulemaking under the Grain Quality Improvement Act of 1986, that the proper handling of recirculated grain dust at export elevators required further study. The results of the study, which is currently in progress, will be used to determine whether to require mandatory retrofitting of dust collection systems to preclude the reintroduction of dust to the grain stream.

E. International Programs

1. Commodity Credit Corporation (CCC) Direct Export Sales of Dairy Products

Issue:

Should specific levels of CCC dairy export sales be mandated in the 1990 Farm Bill?

Background:

Section 1163 of the Food Security Act of 1985 mandated specific levels of CCC direct sales of dairy products. The CCC has broad direct sales authority to be used to achieve the goal of supporting U.S. agriculture. Mandating sales with such specificity reduces the flexibility of the CCC to carry out its broader responsibilities.

Recommendation:

Specific levels of CCC dairy export sales should not be mandated.

2. Dairy Export Incentive Program (DEIP)

Issue:

Should the DEIP program be continued?

Background:

Section 153 of the Food Security Act of 1985 mandated this export program. This is an export subsidy program for dairy products which duplicates existing CCC authority.

Recommendation:

It is recommended that the DEIP not be continued.

3. Barter Provisions

Issue:

Should barter provisions be included in the 1990 Farm Bill?

Background:

The Food Security Act of 1985 includes provisions requiring barter. Considerable time and staff effort have been expended seeking to consummate barter arrangements, but without success.

The Commodity Credit Corporation (CCC) has sufficient existing barter authority. Therefore, should opportunities to enter into barter arrangements that would benefit U.S. agriculture arise, such opportunities can be pursued under existing authority.

Recommendation:

Barter provisions are not needed in the 1990 Farm Bill since other, more flexible, authorities exist.



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